

*In the opinion of Bond Counsel and the Attorney General of the State of Michigan, subject to compliance with certain covenants, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes, except as described under “TAX MATTERS” herein, and the Bonds and the interest thereon are exempt from all taxation of the State of Michigan or a political subdivision thereof, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof. See “TAX MATTERS” herein.*

**\$3,900,000**

**MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY  
LIMITED OBLIGATION REVENUE BONDS  
(AMERICAN MONTESSORI ACADEMY PROJECT), SERIES 2007**

**Dated: Date of Delivery**

**Due: As shown on inside cover**

The Limited Obligation Revenue Bonds (American Montessori Academy Project), Series 2007 (the “Bonds”) will be issued by the Michigan Public Educational Facilities Authority (the “Issuer”) as registered bonds in book-entry only form in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry only form, in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof and purchasers will not receive physical certificates representing the ownership interest in the Bonds purchased by them. See “THE BONDS – Book-Entry-Only System.”

The proceeds of the Bonds will be used to purchase the municipal obligation (the “Municipal Obligation”) issued by American Montessori Academy (the “Academy”). Proceeds from the sale of the Bonds and the Municipal Obligation will be used to (i) provide funds to the Academy to pay the costs of the Project (as defined herein); and (ii) provide funds to pay certain costs relating to the issuance of the Bonds and the Municipal Obligation. Principal of, interest and premium, if any, on the Bonds, and any Additional Bonds (as defined herein), are payable solely from funds pledged under a Trust Indenture between the Issuer and The Bank of New York Trust Company, N.A., as Trustee (the “Indenture”), including the Academy’s payments (the “Academy Payments”) due under both the Municipal Obligation and the Financing Agreement between the Issuer and the Academy (the “Financing Agreement”).

Interest on the Bonds will accrue from the date of delivery and will be payable semi-annually on each June 1 and December 1, commencing June 1, 2008. Principal of and interest on the Bonds will be paid by the corporate trust office of The Bank of New York Trust Company, N.A., the Trustee. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, such payments will be made directly to DTC. Disbursements of such payments to the Direct Participants is the responsibility of DTC, and disbursements of such payments to the beneficial owners is the responsibility of the Direct Participants and the Indirect Participants, as more fully described herein.

The Bonds are subject to optional, mandatory and extraordinary redemption as described in this Official Statement. See “THE BONDS – Redemption of the Bonds Prior to Maturity” herein.

THE BONDS AND ANY ADDITIONAL BONDS ARE PAYABLE SOLELY FROM THE ACADEMY PAYMENTS AND OTHER FUNDS PLEDGED THEREFOR PURSUANT TO THE INDENTURE. NO MORE THAN TWENTY PERCENT (20%) OF THE STATE SCHOOL AID RECEIVED BY THE ACADEMY IN EACH FISCAL YEAR MAY BE LEGALLY AVAILABLE TO PAY THE ACADEMY PAYMENTS. ALL STATE SCHOOL AID RECEIVED BY THE ACADEMY IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE LEGISLATURE AND THE LEGISLATURE IS NOT REQUIRED TO APPROPRIATE MONIES FOR SUCH PURPOSE. THE BONDS DO NOT CONSTITUTE AN OBLIGATION, EITHER GENERAL, SPECIAL, OR MORAL, OF THE STATE, BAY MILLS COMMUNITY COLLEGE (THE AUTHORIZING BODY OF THE ACADEMY), OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR ANY TAXING POWERS OF THE STATE, THE ISSUER, BAY MILLS COMMUNITY COLLEGE OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF PRINCIPAL AND INTEREST WITH RESPECT TO THE BONDS. THE ISSUER HAS NO TAXING POWER. SEE “SOURCES OF PAYMENT AND SECURITY FOR THE BONDS” AND “RISK FACTORS.”

**This cover page contains certain information for quick reference only. It is not a summary of this issue. Purchase of the Bonds involves a high degree of risk and the Bonds are a speculative investment. Investors must read this entire Official Statement to obtain information essential to the making of an informed investment decision, and should give particular attention to the material under the caption “RISK FACTORS” herein.**

The Bonds are offered when, as and if issued by the Issuer and received and accepted by the Underwriter and subject to the approval of legality by Dickinson Wright PLLC, Bloomfield Hills, Michigan, Bond Counsel, and the Attorney General of the State of Michigan, and certain other conditions. Certain legal matters, including the enforceability of the Municipal Obligation, will be passed upon by Clark Hill PLC, Birmingham, Michigan, as counsel to the Academy. Certain legal matters will be passed upon by Dykema Gossett PLLC, Lansing, Michigan as Underwriter’s Counsel. It is expected that the Bonds in book-entry form will be available for delivery against payment therefor on or about December 20, 2007.



## **MATURITY SCHEDULE**

### **Term Bonds**

\$3,900,000 6.50% Term Bond Due December 1, 2037 – Yield 6.50% CUSIP 594569CM5

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, salesperson or other person has been authorized by the Issuer, the Academy, or the Underwriter to give any information or to make any representation with respect to the Bonds other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy and, there shall not be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The descriptions of the documents in the Official Statement are summaries thereof and reference is made to the actual documents for a complete understanding of the contents of such documents.

The Trustee assumes no responsibilities for this Official Statement and has not reviewed or undertaken to verify any information contained herein.

IN MAKING ANY INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

THE INFORMATION SET FORTH HEREIN HAS BEEN OBTAINED FROM THE ISSUER (WITH RESPECT TO THE INFORMATION UNDER THE CAPTION "THE ISSUER" ONLY), THE ACADEMY, DTC AND OTHER SOURCES THAT ARE BELIEVED TO BE RELIABLE, BUT IT IS NOT GUARANTEED AS TO ACCURACY AND COMPLETENESS, AND IS NOT TO BE CONSTRUED AS A REPRESENTATION BY THE UNDERWRITER. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE THE IMPLICATION THAT THERE HAS BEEN NO CHANGE IN ANY OF THE INFORMATION SET FORTH HEREIN SINCE THE DATE HEREOF.

**This Official Statement contains forward-looking statements, which can be identified by the use of the future tense or other forward-looking terms such as "may," "intend," "will," "expect," "anticipate," "plan," "management believes," "estimate," "continue," "should," "strategy," or "position" or the negatives of those terms or other variations of them or by comparable terminology. In particular, any statements, express or implied, concerning future receipts of federal grants or the ability to generate cash flow to service indebtedness are forward-looking statements. Investors are cautioned that reliance on any of those forward-looking statements involves risks and uncertainties and that, although the Academy's management believes that the assumptions on which those forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate. As a result, the forward-looking statements based on those assumptions also could be incorrect, and actual results may differ materially from any results indicated or suggested by those assumptions. In light of these and other uncertainties, the inclusion of a forward-looking statement in this Official Statement should not be regarded as a representation by the Academy that its plans and objectives will be achieved. All forward-looking statements are expressly qualified by the cautionary statements contained in this paragraph. The Academy undertakes no duty to update any forward-looking statements.**

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**OFFICIAL STATEMENT**  
**\$3,900,000**  
**MICHIGAN PUBLIC EDUCATIONAL**  
**FACILITIES AUTHORITY**  
**LIMITED OBLIGATION REVENUE BONDS**  
**(AMERICAN MONTESSORI ACADEMY PROJECT), SERIES 2007**

**INTRODUCTION**

This Official Statement (including the cover page and Appendices) is provided to furnish information in connection with the issuance and sale by the Michigan Public Educational Facilities Authority (the "Issuer") of its Limited Obligation Revenue Bonds (American Montessori Academy Project), Series 2007 in the aggregate principal amount of \$3,900,000 (the "Bonds"). The Bonds will be limited obligations of the Issuer as described under the caption "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" herein.

The Bonds will be issued under a Trust Indenture, dated as of December 1, 2007 (the "Indenture"), between the Issuer and The Bank of New York Trust Company, N.A., as Trustee (the "Trustee"). The proceeds of the Bonds will be used to purchase the School Building and Site Bond dated as of December 1, 2007 (the "Municipal Obligation") issued by American Montessori Academy (the "Academy") pursuant to Act No. 451, Public Acts of Michigan, 1976, as amended. Proceeds from the sale of the Bonds and the Municipal Obligation will be used to (i) provide funds to the Academy to pay the cost of the Project (as defined below); and (ii) provide funds to pay certain costs relating to the issuance of the Bonds and the issuance of the Municipal Obligation. Principal of, interest and premium, if any, on the Bonds are payable solely from funds pledged under a Trust Indenture between the Issuer and The Bank of New York Trust Company, N.A., as Trustee (the "Indenture"), including the Academy's payments (the "Academy Payments") due under both the Municipal Obligation and the Financing Agreement dated as of December 1, 2007 between the Issuer and the Academy (the "Financing Agreement").

The Bonds are payable, on a parity basis with any Additional Bonds (as defined herein), solely from the revenues pledged therefor under the Indenture, including the Academy's payments (the "Academy Payments") due under both the Municipal Obligation and the Financing Agreement dated as of December 1, 2007 between the Issuer and the Academy (the "Financing Agreement").

In order to ensure that the Academy will meet its obligations to make the Academy Payments, the Academy has assigned a portion (not exceeding twenty percent (20%)) of the State School Aid to be received by the Academy from the State of Michigan (the "Direct Payments") and other funds pledged by the Academy under the Indenture. Pursuant to the State Aid Agreement (the "State Aid Agreement") dated as of December 1, 2007, by and among the Academy, the Trustee, the Issuer, the Board of Regents of Bay Mills Community College ("BMCC" or the "Authorizing Body"), as authorizing body and fiscal agent for the Academy, and the State Treasurer, the Direct Payments are to be paid to the Trustee and used to pay debt service on the Bonds. The Bonds will be further secured by a mortgage granting the Trustee a first mortgage lien, subject to permitted encumbrances, on the school facility and real estate comprising the Project (the "Mortgage").

THE BONDS AND ANY ADDITIONAL BONDS ARE PAYABLE SOLELY FROM THE ACADEMY PAYMENTS AND OTHER FUNDS PLEDGED THEREFOR PURSUANT TO THE INDENTURE. NO MORE THAN TWENTY (20%) PERCENT OF THE STATE SCHOOL AID RECEIVED BY THE ACADEMY IN EACH FISCAL YEAR MAY BE LEGALLY AVAILABLE TO PAY THE ACADEMY PAYMENTS. ALL STATE SCHOOL AID RECEIVED BY THE ACADEMY IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE LEGISLATURE AND THE LEGISLATURE IS NOT REQUIRED TO APPROPRIATE MONIES FOR SUCH PURPOSE. THE BONDS DO NOT CONSTITUTE AN OBLIGATION, EITHER GENERAL, SPECIAL, OR MORAL, OF THE STATE, BAY MILLS COMMUNITY COLLEGE (THE AUTHORIZING BODY OF THE ACADEMY), OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR ANY TAXING POWERS OF THE STATE, BAY MILLS COMMUNITY COLLEGE OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF PRINCIPAL AND INTEREST WITH RESPECT TO THE BONDS. THE ISSUER HAS NO TAXING POWER. SEE "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" AND "RISK FACTORS."

## **THE PROJECT**

The proceeds from the sale of the Municipal Obligation will pay the costs of the Project.

The “Project” consists of the acquisition of approximately three acres of land and an approximately 21,200 square foot existing school facility located at 14800 Middlebelt Road, Livonia, Michigan, including existing fixtures and improvements (the “Facility”). The Facility is being acquired from Middlebelt Holdings, LLC (“Middlebelt Holdings”), which developed the site and currently leases the Facility to the Academy. The Academy and Middlebelt entered into a purchase agreement dated January, 2007 and amended February 1, 2007 and October 3, 2007 (the “Purchase Agreement”) to acquire the Facility for \$3,600,000. In connection with the Purchase Agreement and issuance of the Bonds, the Academy received a written appraisal of the Facility from a certified general appraiser dated February 5, 2007 (the “Appraisal”) providing for a reconciled real estate value subject to the assumptions and qualifications contained therein, of \$3,200,000.

For further information on the Project, see “APPENDIX A – AMERICAN MONTESSORI ACADEMY – The Project.”

Acquisition of the Project, issuance by the Academy of its Municipal Obligation, and execution of the Financing Agreement, the State Aid Agreement, the Mortgage, and other documents related to issuance of the Bonds was approved by the Board of Directors of the Academy by resolutions dated February 22, 2007 and October 3, 2007. The BMCC Board of Regents adopted a resolution on October 26, 2007, permitting the Academy to proceed with the transaction described herein in accordance with the terms of its Contract.

The Facility is of sufficient size to house current enrollment. The Facility does not have adequate space to address future Academy growth and the Academy is exploring expansion options. The Bond issue does not include proceeds for the financing of any expansion. Any such financing would need to be undertaken separately at a future date. See “APPENDIX A – AMERICAN MONTESSORI ACADEMY – Future Financing.”

## **THE ISSUER**

The Issuer is a public body corporate and politic of the State of Michigan (the “State”), created by Executive Order 2002-3, compiled at §12.192 of the Michigan Compiled Laws, and is housed within the Michigan Department of Treasury. The Issuer was established for, among other purposes, the purpose of lending money to public school academies within the State for financing or refinancing the acquisition, construction and equipping of public school facilities and for other purposes. In order to effectuate such purposes, the Issuer is authorized to issue its bonds or notes and to make money available to public school academies by the purchase of, among other things, Municipal Obligations or making loans to a nonprofit corporation for the benefit of a public school academy.

The Issuer is governed by a Board of Trustees (the “Board”). The members of the Board are appointed by the Governor of the State with the advice and consent of the State Senate. The members serve for various terms and continue to serve until successors are appointed and file the oath of office. There is currently one vacancy on the Board. The members of the Board are:

Mark J. Burzych	Partner Foster, Swift, Collins & Smith, P.C. Lansing, Michigan
Timothy A. Hoffman	Director of Regulatory Affairs Consumers Energy Lansing, Michigan
Robert J. Kleine	State Treasurer Lansing, Michigan
David S. Mittleman	Partner Church, Kritselis & Wyble, P.C. Lansing, Michigan

The Indenture provides that the covenants, stipulations, promises, agreements and obligations of the Issuer contained in the Indenture are those of the Issuer and not of any member of the Board or any officer or employee of the Issuer in his or her individual capacity and that no recourse shall be had for the payment of the principal of, premium, if any, or interest on the Bonds or for any claim based thereon or on the Indenture against any member of the Board, any officer or employee of the Issuer or any person executing the Bonds.

The Issuer is housed within the State Department of Treasury but exercises its statutory functions independently of the State Treasurer. The Issuer's address is Richard H. Austin State Office Building, 430 West Allegan Street, 1<sup>st</sup> Floor, Lansing, Michigan 48922, and its telephone number is (517) 335-0994.

The Executive Director of the Issuer is Thomas J. Letavis.

The Bonds are limited obligations of the Issuer as described in this Official Statement. The Issuer is not generally liable on the Bonds or on any other obligation incurred by the Issuer under the Indenture or the Financing Agreement. The Bonds are not general obligations and do not constitute debts or pledges against the general credit of the Issuer or the credit or taxing power of the State of Michigan. The Bonds are limited obligations of the Issuer, which will, if and when issued, be payable solely through revenues, properties or other funds as described in this Official Statement, the Indenture and the Financing Agreement. No owner of any Bond shall have the right to demand payment of the principal of, premium, if any, or interest on such Bond out of any funds to be raised by taxation. The Issuer has no taxing power.

The Issuer has not prepared any material for inclusion in this Official Statement except the matters under the heading "THE ISSUER." The distribution of this Official Statement has been duly approved and authorized by the Issuer. Such approval and authorization do not, however, constitute a representation of approval by the Issuer of the accuracy or sufficiency of any information contained herein except to the extent of the information contained in this Section.

## **THE ACADEMY**

The Academy is a public school academy operating as a Michigan non-profit corporation and a governmental agency of the State of Michigan, organized pursuant to Part 6A of Chapter 380 of the Michigan Revised School Code, Michigan Compiled Laws ("M.C.L.") § 380.501 et. seq. and the Michigan Nonprofit Corporation Act, Act No. 162 of the Public Acts of 1982, M.C.L. § 450.2101 et. seq.

The Academy began operations in 2004 as a public school academy. The Academy's mission is to assist children in reaching their full potential and to build awareness and respect for their community and environment. The Academy has adopted a Montessori curriculum that is based upon the individualization of the learning process for each child, stressing the importance of self-motivation and personal responsibility in the educational process.

The Academy is governed by a volunteer Board of Directors and operates under a charter contract (the “Charter”) with BMCC, its authorizing body. The Charter is set to expire on June 30, 2012.

The Academy changed management companies in 2007 and the Academy’s educational facilities are now managed pursuant to a management contract with CS Partners, LLC (“CS”) through June 30, 2010. For additional information regarding the Academy and CS, see “APPENDIX A – AMERICAN MONTESSORI ACADEMY.”

## **SOURCES AND USES OF FUNDS**

Proceeds from the sale of the Bonds, together with other available funds, will be used to (i) provide funds to the Academy to pay the costs of the Project; (ii) fund a debt service reserve fund; and (iii) provide funds to pay certain costs relating to the issuance of the Bonds and the Municipal Obligation.

Sources of Funds:	
Bond Proceeds (Par Amount)	\$3,900,000
Issuer Contribution to Reserve Fund	<u>316,900</u>
Total Sources:	<u>\$4,216,900</u>
Uses of Funds:	
Deposit to Project Fund	\$3,600,000
Deposit to Reserve Fund	316,900
Costs of Issuance (including Underwriter’s discount)*	<u>300,000</u>
Total Uses:	<u>\$4,216,900</u>

\*Includes estimated costs for legal, accounting, trustee, printing and other expenses relating to the issuance of the Bonds and the Municipal Obligation.

## **THE BONDS**

### **General**

The Bonds will be issuable as fully registered bonds without coupons in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof (“Authorized Denominations”). The Bonds will mature on the dates and in the amounts set forth on the inside cover page of this Official Statement, subject to redemption prior to maturity, and will bear interest until paid at the rates shown on the inside cover page of this Official Statement, payable semi-annually on June 1 and December 1 of each year, commencing on June 1, 2008 (each an “Interest Payment Date”).

Interest on the Bonds is computed on the basis of a 360-day year comprised of twelve 30-day months. Payments of principal of and premium, if any, with respect to the Bonds will be made upon surrender of the Bonds at the office of the Trustee. Payments of interest on the Bonds will be made by check or draft mailed on or before each Interest Payment Date to the registered owner thereof as of the Record Date at his or her address as it last appears on the registration books of the Trustee irrespective of any transfer or exchange of the Bonds subsequent to the Record Date and prior to such Interest Payment Date. The “Record Date” means the 15th day of the calendar month immediately preceding any Interest Payment Date, or as otherwise specified in the Indenture.



## **Redemption of Bonds Prior to Maturity**

### ***Optional Redemption***

The Bonds maturing on December 1, 2037 are subject to redemption at the option of the Academy in whole or in part in multiples of \$5,000 on any day commencing on or after December 1, 2017, which date shall be the first day for which notice of redemption may be given under the Indenture at a redemption price of 100% of the principal amount plus accrued interest to the date of redemption.

### ***Mandatory Sinking Fund Redemption***

The Bonds maturing December 1, 2037 are subject to mandatory sinking fund redemption on December 1, 2012 and on each December 1 thereafter, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date from amounts on deposit in the Revenue Account established pursuant to the Indenture as follows:

<b>Term Bonds Maturing December 1, 2037</b>	
<b>Date</b>	<b>Principal Amount</b>
12/01/12	\$ 60,000
12/01/13	65,000
12/01/14	70,000
12/01/15	75,000
12/01/16	80,000
12/01/17	85,000
12/01/18	90,000
12/01/19	95,000
12/01/20	100,000
12/01/21	110,000
12/01/22	115,000
12/01/23	120,000
12/01/24	130,000
12/01/25	140,000
12/01/26	150,000
12/01/27	155,000
12/01/28	170,000
12/01/29	180,000
12/01/30	190,000
12/01/31	200,000
12/01/32	215,000
12/01/33	230,000
12/01/34	245,000
12/01/35	260,000
12/01/36	275,000
12/01/37**	295,000

\*\* Maturity Date

### ***Mandatory Redemption Upon Determination of Taxability***

The Bonds are subject to mandatory redemption prior to maturity, as a whole and not in part, on the earliest practicable date for which notice can be given following the occurrence of a Determination of Taxability under the Indenture, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date.

### ***Mandatory Redemption From Insurance and Condemnation Proceeds***

The Bonds are subject to mandatory redemption in whole at any time or in part (and if in part in Authorized Denominations; provided that no Bond may be redeemed in part if the principal amount to be outstanding following such partial redemption is not an Authorized Denomination) on any Interest Payment Date, at a redemption price equal to 100% of the aggregate principal amount of the Bonds to be redeemed plus accrued interest to the redemption date, in an amount equal to any insurance or condemnation proceeds deposited with the Trustee for the purpose of redemption pursuant to the Financing Agreement.

### ***Notices of Redemption***

Under the Indenture, the Trustee shall give notice of each redemption to the Registered Owner of any Bonds designated for redemption in whole or in part at the address as shall last appear upon the registration books maintained by the Trustee by mailing a copy of the redemption notice by first-class mail at least 30 days prior to the Redemption Date. The failure of the Trustee to give notice to an Owner or the failure of any Owner to receive notice, or any defect in such notice will not affect the validity of the redemption of any Bonds.

Upon surrender of any Bond in a denomination greater than the minimum Authorized Denomination, which Bond has been called for redemption in part only, the Issuer shall execute and the Trustee shall authenticate and deliver to the registered Owner thereof a new Bond or Bonds of Authorized Denominations in an aggregate principal amount equal to, and otherwise the same as, the unredeemed portion of the Bond surrendered.

### **Book-Entry-Only System**

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate in typewritten form will be issued for each stated maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, REFERENCES HEREIN TO BONDHOLDERS, HOLDERS OR OWNERS OF THE BONDS (OTHER THAN UNDER THE CAPTION “TAX MATTERS” HEREIN) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship

with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Academy as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participant’s accounts upon DTC’s receipt of funds and corresponding detail information from the Trustee, on payable dates in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC nor its nominee, the Issuer or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository); in that event, the Bond certificates will be printed and delivered to the Participants for delivery to the Beneficial Owners. The information in this section concerning DTC and DTC's book entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer assumes no responsibility for the accuracy thereof.

NEITHER THE ISSUER, THE ACADEMY, THE TRUSTEE, NOR THE UNDERWRITER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE BONDS WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY THE DEPOSITORY OR ANY PARTICIPANT; (ii) THE PAYMENT BY THE DEPOSITORY TO ANY PARTICIPANT OR BY ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT, OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (iii) THE DELIVERY OF ANY NOTICE BY THE DEPOSITORY TO ANY PARTICIPANT OR BY ANY PARTICIPANT TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO BONDHOLDERS UNDER THE TERMS OF THE INDENTURE; (iv) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (v) ANY OTHER ACTION TAKEN BY THE DEPOSITORY AS OWNER OF THE BONDS.

## **SOURCES OF PAYMENT AND SECURITY FOR THE BONDS**

### **General**

The Bonds are limited obligations of the Issuer and are payable, on a parity basis with any Additional Bonds, by the Issuer solely from the Academy Payments due under both the Financing Agreement and the Municipal Obligation and other funds pledged under the Indenture. The Academy has pledged a portion of its State School Aid payments to pay the Academy Payments and with respect to this pledge the Academy has entered into a State Aid Agreement dated as of December 1, 2007 relating to the intercept and/or advance of its State School Aid payments. The Bonds will be further secured by the Mortgage granting the Trustee a first mortgage lien, subject to permitted encumbrances, on the Facility and the real estate comprising the Project.

THE BONDS AND ANY ADDITIONAL BONDS ARE PAYABLE SOLELY FROM THE ACADEMY PAYMENTS AND OTHER FUNDS PLEDGED THEREFOR PURSUANT TO THE INDENTURE. NO MORE THAN TWENTY PERCENT (20%) OF THE STATE SCHOOL AID RECEIVED BY THE ACADEMY IN EACH FISCAL YEAR MAY BE LEGALLY AVAILABLE TO PAY THE ACADEMY'S REPAYMENTS. ALL STATE SCHOOL AID RECEIVED BY THE ACADEMY IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE LEGISLATURE AND THE LEGISLATURE IS NOT REQUIRED TO APPROPRIATE MONIES FOR SUCH PURPOSE. THE BONDS DO NOT CONSTITUTE AN OBLIGATION, EITHER GENERAL, SPECIAL, OR MORAL, OF THE STATE, BAY MILLS COMMUNITY COLLEGE, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR ANY TAXING POWERS OF THE STATE, BAY MILLS COMMUNITY COLLEGE OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF PRINCIPAL AND INTEREST WITH RESPECT TO THE BONDS. THE ISSUER HAS NO TAXING POWER.

### **Additional Bonds and Additional Indebtedness**

The Indenture permits the issuance of Additional Bonds (the "Additional Bonds"), which shall be secured on a parity basis with the Bonds, provided that the Academy satisfies certain covenants with respect to additional indebtedness. The Academy may also incur other additional Indebtedness as described in the Indenture. See "LIMITATION ON ADDITIONAL BONDS AND ADDITIONAL INDEBTEDNESS" below for a description of the terms and conditions under which the Authority may issue Additional Bonds and Academy may incur additional indebtedness.

## **The Financing Agreement and the Municipal Obligation**

Under the Financing Agreement, the Issuer agrees to issue, sell and deliver the Bonds pursuant to the Indenture and cause the proceeds of the sale of the Bonds to be deposited with the Trustee and applied as contemplated by the Indenture. The Academy will pay periodic installments in the amounts and on the dates set forth in the Municipal Obligation and the Financing Agreement to the Trustee as assignee of the Issuer. The obligation of the Academy to pay the Bond Payments and Additional Payments (each as defined in the Financing Agreement) and all amounts required by the Municipal Obligation and the Financing Agreement are an absolute and unconditional general obligation of the Academy and are not subject to diminution by set-off, recoupment, counterclaim, abatement or otherwise. The Academy has no taxing power. It is the intent and expectation of the Academy and the Issuer that the Bond Payments will be sufficient for the payment in full of the principal of and interest on the Bonds.

## **State School Aid Pledge**

Pursuant to the Financing Agreement, the Academy has pledged the State School Aid payments to be received by it in each fiscal year from the State (the "Pledged State School Aid") to pay the Bond Payments and any Additional Payments due under the Financing Agreement; provided that the Pledged State School Aid applied by the Trustee under the Indenture on behalf of the Academy to pay Bond Payments under the Financing Agreement in any fiscal year of the Academy shall not exceed twenty percent (20%) of the amount of State School Aid payable to the Academy in such fiscal year.

The Academy agrees with the Issuer under the Financing Agreement that if the State School Aid Act is modified to provide for a different schedule of periodic State School Aid payments than that now in effect, the Issuer, by written notice to the Trustee, the State Treasurer, the Academy and its Authorizing Body may designate different payment dates (and, to the extent necessary, different payment amounts) to provide for timely receipt of Bond Payments consistent with such revised State School Aid payment schedule.

## **Direct Transfer of State School Aid by State Treasurer for Payment of the Financing Agreement**

Under the Financing Agreement the Academy has agreed to pay the Bond Payments and Additional Payments from the State School Aid to be allocated to it and payable to its Authorizing Body. The Issuer and the Academy in the Financing Agreement, and the Academy and its Authorizing Body in the State Aid Agreement, agree that the State Treasurer is irrevocably directed, starting in January, 2008, to transmit an amount approximately equal to 1/11 of the annual principal payments scheduled on the Bonds plus 1/11 of the annual interest obligation on the Bonds plus 1/11 of the Scheduled Fee Payment Component (as defined in the Financing Agreement) on the 20<sup>th</sup> of each January, February, March, April, May, June, July, August, October, November and December (or, if the 20<sup>th</sup> falls on a Saturday, Sunday or legal holiday, on the immediately succeeding regular business day) directly to the Trustee; provided, that the amounts applied by the Trustee to Bond Payments in any fiscal year of the State shall not exceed twenty percent (20%) of the amount of State School Aid payable to the Academy in such fiscal year.

If for any reason the amount held by the Trustee on the due date of any Bond Payment and Additional Payment is insufficient to pay the Bond Payment or Additional Payment due under the Financing Agreement, then in that event the Academy pledges to use any and all other available funds to satisfy that Bond Payment or Additional Payment obligation.

If, on the due date for any Academy Repayment, the funds with the Trustee are insufficient to pay the Bond Payment or Additional Payment due under the Financing Agreement, the Academy, pursuant to the State School Aid Act to the extent necessary to meet that payment obligation, assigns to the Issuer and authorizes and directs the State Treasurer to intercept and/or advance not to exceed 97% of any State School Aid payment to be made to or for the Academy which is dedicated for distribution or for which the appropriation authorizing such payment has been made. Any such advance will be made directly to the Trustee and applied on the following priority basis: first, the amount required to pay the Bond Payment or Additional Payment due under the Financing Agreement shall be held and applied by the Trustee for that purpose; second, any other amounts owing to the Issuer by the Academy under its Financing Agreement when due shall be held and applied by the Trustee for that purpose; third, amounts due to the Trustee under the Indenture shall be held and applied for such purpose; and fourth, any remaining amount shall be

immediately distributed to the Academy's Authorizing Body or as otherwise directed by the Issuer. The Financing Agreement provides that any such intercept and/or advance process with respect to the Academy shall continue until sufficient funds are deposited with the Trustee to pay all of the Academy's Bond Payments and Additional Payments due under the Financing Agreement. Notwithstanding the foregoing, no more than twenty (20%) percent of the State School Aid payments received by the Academy in each fiscal year may be legally available to pay scheduled principal and interest on the related Bonds through its Bond Payments due under the Financing Agreement.

### **State School Aid Source**

The primary source of revenue received by the Academy is State School Aid which is a per pupil foundation allowance provided by the State for all public schools (including public school academies). The amount of State School Aid received by any individual school (including the Academy) is based upon its per pupil enrollment. The amount of State School Aid available in any year to pay the per pupil allowance is subject to appropriation by the Michigan Legislature.

See "APPENDIX A – AMERICAN MONTESSORI ACADEMY – State Aid Payments" for the Academy's State School Aid per pupil allowance for the 2000–01 through 2007-08 fiscal years.

Pursuant to the State School Aid Act, a public school academy's annual entitlement to State School Aid for the 2006-07 fiscal year shall be paid in installments equal to one-eleventh of such entitlement on the 20<sup>th</sup> (or if the 20<sup>th</sup> falls on a Saturday, Sunday or legal holiday, on the immediately succeeding regular business day) in each of the months of October through August, subject to certain statutory adjustments.

### ***Pupil Membership Counts***

State School Aid is paid to a public school academy on a per pupil basis. The State School Aid Act currently provides that pupil membership is based on a blended count of 75% of the current September count plus 25% of the prior February supplemental count, all as determined by the Michigan Department of Education. The State School Aid Act contains alternative methodologies for determining pupil counts for public school academies which have been in existence less than two years or which have suspended operations for one or more semesters. For school districts, including public school academies, which have pupils enrolled in a grade level that was not offered the prior year, pupil membership counts for that grade level are based on an average of the current September count and the following February supplemental count, all as determined by the Michigan Department of Education. Due to grade growth, the Academy enrollment is modified downward from actual September count due to the blended count process, but none of the alternative methodologies for determining pupil counts currently apply to the Academy.

### ***Legislative Changes in the State School Aid Act***

The State School Aid Act may be modified by the Michigan Legislature, subject only to certain State constitutional parameters. The amount, timing and methodology for calculation of State School Aid have changed significantly in recent years. State School Aid payments are subject to annual appropriation and future modification by the Michigan Legislature, subject only to such constitutional parameters. See "RISK FACTORS – DELAY IN, REDUCTION, OR TERMINATION OF STATE SCHOOL AID" and "RISK FACTORS – Changes in Law" herein

### ***Changes in State School Aid Distributions***

Scheduled State Aid amounts are subject to reduction, and have been reduced, in the event there are insufficient funds to support an enacted school aid fund budget. Under the State's Constitution and State law, the State is required to maintain a balanced budget for any fiscal year. Due to insufficient funds to support the enacted State school aid budget, in fiscal year 2002-03, the final six State Aid payments to school districts were reduced on a pro rata basis in an amount equal to 3.8% of the districts' unprotected State Aid, ranging from \$0 to \$137 per pupil; and in fiscal year 2003-04, adjustments were made to the State school aid budget, including a six-month delay in the previously scheduled reduction of the State income tax rate from 4.0% to 3.9%. Under the terms of the adjustments, State Aid to school districts was reduced in fiscal year 2003-04 by approximately \$75 per pupil.

There is past precedent for (i) the State Treasurer giving advance notice to the State Budget Director if estimated school aid fund revenues and other dedicated funding would be insufficient to support appropriated State Aid amounts for a fiscal year, and (ii) the State Budget Director, pursuant to Section 11(3) of the State School Aid Act, notifying the State Senate Majority Leader and the Speaker of the State House of Representatives that beginning on a specified date, a specified prorated reduction in a fiscal year would be applied to all spending categories except those specifically protected by law, unless legislation were enacted to reduce that fiscal year's school aid appropriations so as not to exceed the revised school aid revenue projections.

Section 20 of Article 5 of the State constitution requires that the Governor, with the approval of the appropriating committees of the State House of Representatives and the State Senate, reduce expenditures authorized by appropriations whenever it appears that actual revenues for a fiscal period will fall below the revenue estimates on which appropriations for that period were based. On March 22, 2007, the Governor issued Executive Order 2007-3 and ordered budget cuts of approximately \$274,245,000 in the general fund and \$70,383,100 in special purpose funds in anticipation of actual revenue falling below revenue estimates in order to balance the fiscal year 2006-07 budget. The budget cuts did not include reductions in the State's School Aid Fund. Under State law, the Senate and House Appropriations Committees had 10 days to either approve or disapprove by a majority vote the reductions contained in that order. Both the Senate and House Appropriations Committees approved the reductions in Executive Order 2007-3. On March 29, 2007, the Governor also issued 10 directives to State departments and agencies to take new steps to curtail spending. On October 1, 2007, the Legislature approved a one month continuation in budget, and on October 31, 2007, the Legislature adopted the appropriation bills for the 2007-08 fiscal year.

### **The Reserve Fund**

The Reserve Fund (the "Reserve Fund") will be established pursuant to the Indenture. The Issuer is expected to deposit in the Reserve Fund monies in an amount equal to the Reserve Fund Requirement derived from a grant awarded by the United States Department of Education through its Credit Enhancement for Charter Schools Program (the "Grant")

The "Reserve Fund Requirement" means an amount equal to the lesser of (a) the maximum annual principal and interest requirements on the Bonds, (b) 125% of the average annual principal and interest requirements on the Bonds, or (c) 10% of the original principal amount of the Bonds (net of original issue discount). Amounts in the Reserve Fund provide additional security for the Bonds. Monies held in the Reserve Fund in excess of the Reserve Fund Requirement (calculated including monies on deposit in the Academy Funded Reserve Account) shall be transferred by the Trustee to the Issuer, free and clear of the lien of the Indenture.

If at any time there are not sufficient funds in the Bond Fund established under the Indenture for the payment of principal of, premium, if any, and interest on the Bonds as the same become due, the Trustee shall withdraw from the Reserve Fund and deposit in the Bond Fund sufficient moneys which, when added to the moneys on deposit in the Bond Fund, will be sufficient to meet the payment of principal, premium, if any, and interest then due on the Bonds.

### **The Mortgage and the Environmental Report**

As additional security for the Bonds, the Academy will deliver, and the Trustee will receive, a first mortgage lien, subject to permitted encumbrances, on the Project to secure the payment of the Academy's Bond Payments due under the Financing Agreement.

Under the State School Aid Act, property of a public school academy that was acquired substantially with funds appropriated under such Act is required to be transferred to the State by the public school academy in certain events, including revocation of its charter or if its charter has not been reissued by the authorizing body. In such event, the State School Aid Act authorizes the State Treasurer to sell such property and requires the State Treasurer to apply the net proceeds from such sale first to pay any debt of the public school academy secured by such property, and second, to deposit any remaining amount into the State School Aid fund.

There are potential risks relating to environmental liability associated with ownership of or secured lending with respect to real property. The Academy has obtained a Phase I Environmental Report regarding the Project. See “RISK FACTORS – Environmental Issues Regarding the Project” for a description of the Phase I Environmental Report.

### **Certain Financial Information Concerning the State**

Complete financial statements of all of the State’s funds as included in the State’s Comprehensive Annual Financial Report (“CAFR”) prepared by the State’s Office of the State Budget are available from the Office of the State Budget website at [www.michigan.gov/budget](http://www.michigan.gov/budget). The State has agreed to file its CAFR with the Nationally Recognized Municipal Securities Information Repositories and the State Information Depository (as described in Rule 15c2-12(b)(5) of the Securities and Exchange Commission) annually.

### **Limited Obligation**

Neither the Issuer nor the State of Michigan nor Bay Mills Community College shall be obligated to pay the Bonds or the interest thereon or other costs incident thereto, except that the Issuer shall be obligated to make such payments solely from the security for the Bonds described herein. Neither the faith and credit of the Issuer or of Bay Mills Community College nor the taxing power of the State of Michigan is pledged to the payment of the principal of, premium, if any, or the interest on, the Bonds. The Bonds are not general obligations of the Issuer, but are limited obligations payable solely from certain amounts payable by the Academy under the Financing Agreement and other moneys pledged therefor under the Indenture. The Issuer has no taxing power.

## **CHARTER SCHOOLS IN MICHIGAN**

### **General**

In December of 1993, Michigan became the ninth state to pass charter school legislation. The current charter school statute is codified in the Revised School Code, § 380.501 – 380.507 of the Michigan Compiled Laws (M.C.L.). In Michigan, charter schools are known as public school academies. A public school academy is a state-supported public school that is funded through the State School Aid Act (1979 PA 94, as amended, M.C.L., 388.1601, *et. seq.*) and receives funding through a per pupil base allowance. See “SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – State School Aid Source” herein.

According to the Michigan Department of Education, during the 2005-06 fiscal year, there were 225 public school academies serving over 90,000 students. More than 60% of charter students are minorities and 56% of them qualify for free- or reduced-price lunch. About 9% of charter school students have special needs.

### **Michigan Supreme Court Upholds Law**

The Michigan Supreme Court ruled 5-1 on July 30, 1997 that Michigan’s original public school academy law was constitutional. The Court ruled that “1993 PA 362 does not violate Constitution 1963, article 8 section 2 or section 3. Further, . . . the 1994 PA 416 repealer is valid and enforceable, requiring remand to the trial court for vacation of the injunction and entry of an order to the Department of Treasury to disburse funds to the public school academies operating under 1993 PA 362.” *Council of Organizations and Others for Educ. about Parochialism, Inc. v. Mich. Dept. of Educ. et. al.*, 455 Mich. 557, 556 N.W.2d 208 (Mich. 1997).

### **Michigan School Finance Reform**

On June 15, 1994, the electors of the State of Michigan approved a ballot proposition (“Proposal A”) to amend the State Constitution of 1963, in part, to increase the state sales tax from 4% to 6% as part of a complex plan to restructure the source of funding of public education (K-12) in Michigan in order to reduce reliance on local property taxes for school operating purposes and to equalize the per pupil finance resource disparities among all school districts. The State aid package passed by the Legislature as part of the school finance reform legislation



instituted a per pupil foundation guarantee beginning in fiscal year 1994/1995. The Legislature has historically appropriated funds to establish a foundation allowance within a range based in part on historical revenue. The foundation allowance may be adjusted by an index based upon the change in revenues to the State school aid fund and change in the total number of pupils statewide and the disparity between the high and low per pupil guarantee is reduced. The source of revenues for the state's contribution to the foundation allowance is derived from a mix of taxing sources, including but not limited to, a statewide property tax of six mills on all property (homestead and non-homestead), a state sales and use tax, a real estate transfer tax and a cigarette tax.

State School Aid appropriations and the payment schedule for State School Aid can be changed by the Legislature at any time. See "SOURCES OF PAYMENT AND SECURITY FOR THESE BONDS – State School Aid Revenues" and "RISK FACTORS" herein.

## **LIMITATION ON ADDITIONAL BONDS AND ADDITIONAL INDEBTEDNESS**

### **Additional Bonds**

The Authority reserves the right to issue Additional Bonds, upon the request of the Academy with such approvals as required by the Enabling Legislation, without limit in one or more series for the acquisition, construction and/or renovation of facilities to be used by the Academy and for such other purposes set forth in, and subject to the requirements, of the Financing Agreement. Additional Bonds shall be of the same priority as the Bonds and all bonds issued under the Indenture shall be equally and ratably payable from and secured by the Security, but the Additional Bonds shall bear such dates and interest rates, have maturity dates and redemption dates and prices, and be issued at such prices as shall be approved in writing by the Authority and the Academy. No Additional Bonds shall be issued unless the following terms and conditions have been met:

- a. the Trustee has received a copy, duly certified by the Authority, of the resolution adopted by the Authority authorizing the issuance of such Additional Bonds and the execution and delivery of a supplemental indenture, supplementing and amending this Indenture, which supplemental indenture shall not require the approval of the Registered Owners of the Bonds Outstanding, providing the date, interest rates and maturities of such Additional Bonds, options and requirements for redemption prior to maturity with respect to such Additional Bonds, deposit of proceeds to the various funds and accounts, including the Reserve Fund, and such other terms as may be required by reason of the foregoing and which adopts the applicable provisions of this Indenture.
- b. the Trustee and the Authority have received an opinion of counsel to the Academy in form and substance acceptable to the Trustee, the Authority, Bond Counsel and the Attorney General of the State of Michigan.
- c. the Trustee has received a certificate of an Authorized Representative of the Academy to the effect that the Academy is not in default under the Financing Agreement, is not aware of any Events of Default under the Indenture and that such indebtedness may be issued under the Financing Agreement.
- d. the Trustee and the Authority have received an opinion of nationally recognized municipal bond counsel to the effect that (i) the issuance of such Additional Bonds will not affect adversely the exclusion from gross income for federal income tax purposes of interest on any Outstanding Bonds, and (ii) the Additional Bonds to be delivered will be valid and legal limited obligations of the Authority in accordance with their terms and will be secured hereunder equally and on a parity with all other Bonds at the time Outstanding hereunder as to the assignment and pledge of the Security to the payment of the Bonds;
- e. the Trustee has received original executed counterparts of the agreement supplementing and amending the Mortgage (if necessary), an agreement supplementing and amending the State Aid

Agreement (if necessary), and the supplemental indenture supplementing and amending this Indenture;

- f. the Trustee has received a request and authorization to the Trustee on behalf of the Authority and signed by the Authorized Representative of the Authority to authenticate and deliver such Additional Bonds to the purchasers therein identified, upon payment to the Trustee, but for the account of the Authority, of a sum specified in such request and authorization, plus accrued interest thereon, if any, to the date of delivery;
- g. the Trustee will receive from the proceeds of the Additional Bonds or otherwise on the date of delivery of the Additional Bonds an amount equal to the additional Reserve Fund Requirement for deposit into the Reserve Fund;
- h. the Trustee and the Authority have received an executed opinion of nationally recognized municipal bond counsel to the effect that (i) the Additional Bonds have been duly authorized, executed and delivered and constitute the binding limited obligations of the Authority, enforceable in accordance with their terms, subject to normal bankruptcy exceptions, and (ii) the interest on such Additional Bonds is excluded from gross income for federal income tax purposes (unless it is intended that such interest be taxable); and
- i. the Academy provides to the Trustee a certificate of an Authorized Representative of the Academy, to the effect that:
  - (1) The ratio of (a) 20% of the amount of State School Aid projected to be payable to the Academy by the State in any fiscal year to (b) the aggregate annual debt service in such fiscal year on the Bonds and any Additional Bonds proposed to be issued is not less than 1.1:1.0;
  - (2) The ratio of (a) 20% of the amount of State School Aid projected to be payable to the Academy by the State in any fiscal year to (b) the maximum aggregate annual debt service on the Bonds and any Additional Bonds proposed to be issued is not less than 1.1:1.0; and
  - (3) Pursuant to (1) and (2) above, for purposes of computing future projections of State School Aid, such certificate shall use the expected total amount of State School Aid to be paid to the Academy for the Academy's current fiscal year computed using the number of students certified as of the September count date of the current fiscal year unless the Academy has received the approval of its Authorizing Body for a grade or facility expansion, in which case, the ratios may be calculated using the number of students certified as of the September count date of the current fiscal year plus the estimated enrollment for any approved grade or facility expansion.

#### **Other Additional Indebtedness**

The Academy in the Financing Agreement will covenant that without the prior written consent of the Trustee at the direction of the holders of 51% of the Outstanding Bonds, it will not incur indebtedness for borrowed money, guarantee the obligations of others or incur other pecuniary obligations, except:

- (a) obligations incurred in the ordinary course of business;
- (b) state aid notes (including state aid note lines of credit) issued pursuant to Act No. 451, Public Acts of Michigan, 1976, as amended;
- (c) other indebtedness incurred or guaranteed by the Academy in accordance with applicable law related to capital acquisitions provided that the aggregate maximum annual debt service on such

indebtedness, in any fiscal year, together with the applicable debt service on the Bonds for such year, shall not exceed 20% of the amount of the State School Aid projected to be payable to the Academy by the State in such fiscal year;

- (d) For purposes of computing future projections of State School Aid, the amount of State School Aid to be paid to the Academy for the Academy's current fiscal year computed using the number of students certified as of the September count date of the current year shall be used; and
- (e) Notwithstanding the foregoing, the Academy covenants and agrees that the amount of State School Aid to be received by the Academy shall be at least the total of the Scheduled Installment Payments, Additional Payments and all payments on such other Obligations to which State School Aid has been pledged due in such fiscal year.

## **RISK FACTORS**

This Official Statement contains summaries of pertinent portions of the Bonds and the Indenture. Such summaries and references are qualified in their entirety by reference to the full text of such documents. The following discussion of some of the risk factors associated with the Bonds is not, and is not intended to be, exhaustive, and such risks are not necessarily presented in the order of their magnitude.

### **Speculative Investment**

Purchase of the Bonds involves a high degree of risk and the Bonds are a speculative investment. The Bonds are not rated. See "No RATING" below.

### **Public School Academies Generally**

The operations of the Academy relate primarily to the ownership and operation of a public school academy located in Livonia, Michigan. Such operations are dependent on sufficient demand for such facilities, adequate revenues from enrollment at the facilities and control of expenses. The operation of a public school academy is highly regulated through the Charter, the Authorizing Body, and the Michigan Department of Education. A public school academy may not charge tuition to a student attending the academy. The failure of the Academy to meet the requirements of the regulations, termination, revocation or non-renewal of the Academy's Charter by the Bay Mills Community College Board of Regents, or its designee, or the inability to secure a charter from another authorizing body would have a material adverse effect on the ability of the Academy to make Academy Payments. See "RISK FACTORS – Revocation or Nonrenewal of Charter."

### **Sufficiency of Revenues**

The Bonds are secured by and payable solely from revenues of the Academy pledged under the terms and conditions of the Indenture and as otherwise described therein. Based on present circumstances (i.e., its charter contract and operating history), the Academy believes it will generate sufficient revenues to meet its obligations under the Indenture. However, the Academy's charter may be terminated or not renewed, or the basis of the assumptions utilized by the Academy to formulate this belief may otherwise change and no representation or assurance can be made that the Academy will continue to generate sufficient revenues to meet its obligations.

### **No Taxing Authority**

The Academy is a Michigan public school academy and has no taxing power. The Academy does not possess the ability to assess ad valorem taxes now or in the future. As such, the Academy is completely dependent upon State School Aid revenues to pay the Academy Payments. Any event that would delay, reduce or eliminate State School Aid monies from the State would have a material adverse effect on the ability of the Academy to make Academy Payments coming due thereafter. See "RISK FACTORS" section, including "Revocation or Nonrenewal of Charter" and "Delay in, Reduction, or Termination of State School Aid" herein.

## **Dependence on State School Aid Payments; State School Aid Payments Subject to Annual Appropriation**

The Academy may not charge tuition and has no taxing authority. The primary source of revenue received by the Academy is the per pupil allowance provided by the State for all public schools (including public school academies). The amount of State School Aid received by any individual school (including the Academy) is based upon its per pupil enrollment. The amount of State School Aid available in any year to pay the per pupil allowance is subject to appropriation by the Michigan Legislature. The Legislature may not appropriate funds, or may not appropriate funds in a sufficient amount, to enable the Academy to pay debt service on the Bonds and to meet its general operating expenses. Similarly, the State allocation per student could be reduced or not keep pace with expenses such that the aggregate State School Aid Payments to the Academy is inadequate to allow the Academy to pay its operating expenses and debt service on the Bonds. No liability shall accrue to the State in such event, and the State will not be obligated or liable for any future payments or any damages in such event. In the event the State were to withhold the payment of monies from the Academy for any reason, even a reason that is ultimately determined to be invalid or unlawful, it is likely the Academy would be forced to cease operations.

## **Delay in, Reduction, or Termination of State School Aid**

Any event that would cause a delay, reduction or elimination of State School Aid payments would have a material adverse effect on the ability of the Academy to make debt service payments on the Bonds. The Michigan legislature is required to balance the budget and if it does not, the proration provisions of the School Aid Act become effective. The proration provisions essentially roll back the per pupil allowance. Section 11 of the School Aid Act states that if appropriations exceed the amount available for expenditure from the School Aid Fund in any given year, then the State must prorate certain payments to school districts in order to eliminate the shortfall. In previous fiscal years, the State has applied across-the-board cuts to eliminate shortfalls which have resulted in a reduction of the Academy's per pupil foundation allowance. No representation can be made that future fiscal periods will not be subject to similar budget shortfalls. Any reduction in State School Aid payments could have a material adverse effect on the ability of the Academy to make Academy Payments coming due thereafter.

## **Changes in Law**

The School Aid Act is subject to modification by the Michigan Legislature, subject only to certain constitutional parameters. The amount, timing and methodology for calculation of State School Aid has changed significantly in recent years, and is subject to future legislative changes.

Further, the Michigan Legislature has amended the charter school laws since they were first enacted in 1993. Future amendments to the law may adversely affect the Academy, for example, by reducing the maximum amount payable by the State for students enrolled by the Academy, by limiting the amount of such State School Aid payments that may be pledged to obligations such as the Bonds, by withholding a percentage of the State School Aid payments if a charter school is deemed not to be in compliance with its charter or state and federal laws, by decreasing the maximum length of a charter contract's term, by requiring a state body to make an assessment of each school's effectiveness every year, by limiting the number of students for which State funds are available, by mandating new facilities or programs which may cost more than has been projected, by revising the relative responsibilities between school districts and the State for financing schools (including charter schools) or by eliminating the authority for charter schools.

## **Limitation of Availability of State School Aid**

**No more than twenty percent (20%) of the State School Aid received by the Academy from the State in each fiscal year may be legally available to pay the Academy Payments.**

## **Environmental Issues Regarding the Project**

The Project and surrounding site (for purposes of this section, the "Property") are subject to various federal, State and local laws and regulations governing health and the environment. In general, these laws and regulations could result in liability to the owner of the Project for investigating and remediating adverse environmental conditions on or relating to the Project, whether arising from preexisting conditions or conditions arising as a result

of the activities conducted in connection with the ownership and operation of the Project. Costs incurred by the Academy with respect to environmental liability could adversely impact its financial condition and its ability to operate its school facilities.

A Phase I Environmental Site Assessment was performed by Clayton Group Services, Inc. (“Clayton”) for a prior lender in 2004 with respect to the Property. An updated Phase I Environmental Site Assessment was performed by Clayton for the Academy on February 2, 2007 (the “Report”). The Report revealed no evidence of recognized environmental conditions in connection with the Property.

### **Economic and Other Factors**

Future economic and other factors may adversely affect the Academy’s revenues and expenses and, consequently, the Academy’s ability to make debt service payments under the Indenture. Among the factors that could have such adverse effects are: decreases in the number of students seeking to attend the Academy at optimum levels for each grade level; the ability of the Academy to provide the education desired and accepted by the population served; economic developments in the affected service area; diminution of the Academy’s reputation in its field; competition from other educational institutions, including other charter schools, private schools and public schools; lessened ability of the Academy to attract and retain qualified teachers and staff at salaries that permit payment of debt service and expenses; increased costs associated with technological advances; changes in government regulation of the education industry or in the Michigan charter school statutes; future claims for accidents at the Academy’s sites and the extent of insurance coverage for such claims; decrease in per-student funding amounts by the State; and the occurrence of natural disasters such as floods.

### **Revocation or Non-Renewal of Charter**

The Academy operates under a charter contract with BMCC. The charter contract provides the basis for the Academy to receive State School Aid payments. The Academy’s charter contract is effective through June, 2012. Decisions to terminate the charter at the end of each annual period are at the sole discretion of the BMCC Board and the BMCC Board could choose to terminate the Academy’s charter upon its expiration for any reason. Additionally, BMCC may unilaterally terminate the Academy’s charter at any time if the Academy is not in substantial compliance with the charter or any provision of applicable law. The BMCC Board may also revoke or terminate the charter pursuant to its terms based on grounds specified in the charter. See “APPENDIX A – AMERICAN MONTESSORI ACADEMY – The Charter Agreement.” The decision to terminate or to revoke a contract is in the discretion of the authorizing body, is final, and is not subject to review by a court or any State agency. In the event that the Academy’s charter is revoked or terminated, the ability of the Academy to make debt service payments on the Bonds would be adversely affected and the Academy could be forced to cease operations.

**IN THE EVENT THAT THE BMCC BOARD WERE TO REVOKE, TERMINATE, SUSPEND OR NOT RENEW THE ACADEMY’S CHARTER, OR IF THE ACADEMY WERE UNABLE TO SECURE ANOTHER AUTHORIZING BODY, THE ABILITY OF THE ACADEMY TO MAKE ACADEMY PAYMENTS UNDER THE FINANCING AGREEMENT AND THE INDENTURE COMING DUE THEREAFTER WOULD BE MATERIALLY ADVERSELY AFFECTED.**

Pursuant to Section 18b of the State School Aid Act, in the event that the Academy (i) is ineligible to receive funding under the State School Aid Act for 18 consecutive months; (ii) the Academy’s charter is revoked; or (iii) the Academy’s charter is not reissued by the Authorizing Body, then property, including title to such property, acquired substantially with funds received from the State pursuant to the State School Aid Act is required to be transferred to the State. The State Treasurer, or his or her designee, is authorized to dispose of property transferred to the State pursuant to Section 18b of the State School Aid Act. Except as otherwise provided in Section 18b of the State School Aid Act, the State Treasurer shall deposit in the state school aid fund any money included in that property and the net proceeds from the sale of the property or interests in the property, after payment by the State Treasurer of a public school academy debt secured by the property or interest in the property.

### **Limited Operating History; Reliance on Projections**

The ability of the Academy to make debt service payments when due is dependent on State School Aid payments to be received by the Academy as payment for educating students. The Academy has conducted operations as a charter school since 2004. The projections of revenues and expenses contained in “APPENDIX A – AMERICAN MONTESSORI ACADEMY – Historical and Projected Revenue and Expenses,” herein were prepared by the Academy and have not been independently reviewed or verified by any other party. In particular, the Underwriter has not independently verified such projections, and makes no representations nor gives any assurances that such projections, nor the assumptions underlying them, are complete or correct. Further, the projections relate only to the fiscal years of the Academy ending June 30, 2008 through 2012, and consequently do not cover the entire period that the Bonds will be outstanding.

The projections are derived from the actual operation of the Academy and from the Academy’s assumptions about future student enrollment and expenses. There can be no assurance that the actual enrollment revenues and expenses for the Academy will be consistent with the assumptions underlying the projections contained herein. Moreover, no guarantee can be made that the projections of revenues and expenses contained herein will correspond with the results actually achieved in the future because there is no assurance that actual events will correspond with the assumptions made by the Academy. Actual operating results may be affected by many factors, including, but not limited to, increased costs, lower than anticipated revenues (as a result of insufficient enrollment, reduced State School Aid payments, or otherwise), employee relations, changes in taxes, changes in applicable government regulation, changes in demographic trends, changes in elementary education competition and changes in local or general economic conditions. Refer to “APPENDIX A – AMERICAN MONTESSORI ACADEMY,” to review certain of the projections and to consider the various factors that could cause actual results to differ significantly from projected results.

NO GUARANTEE CAN BE MADE THAT THE PROJECTED INFORMATION WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE BECAUSE THERE IS NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE BY THE ACADEMY. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, INCREASED COSTS, LOWER THAN ANTICIPATED REVENUES (AS A RESULT OF INSUFFICIENT ENROLLMENT, REDUCED STATE SCHOOL AID PAYMENTS, OR OTHERWISE), EMPLOYEE RELATIONS, CHANGES IN TAXES, CHANGES IN APPLICABLE GOVERNMENTAL REGULATION, CHANGES IN DEMOGRAPHIC TRENDS, CHANGES IN ELEMENTARY AND SECONDARY EDUCATION COMPETITION AND LOCAL OR GENERAL ECONOMIC CONDITIONS.

### **Existing and Prospective Operations Generally**

The revenues and expenses associated with the existing and prospective operations of the Academy will be affected by future events and conditions relating generally to, among other things, demand in the Academy’s service area for educational services, the ability of the Academy to continue to provide the kinds of facilities and educational services desired or required by the student population, economic developments in the affected service area, competition from existing or future facilities and providers, the ability of the Academy to maintain high enrollment levels in the Project and at its other campuses and the ability to continue to receive State School Aid sufficient for the payment of all related costs of operation.

No assurances can be given that the Academy will continue to have funds for the payment of amounts due under the Indenture, including the Academy Payments. Accordingly, the likelihood that there will be sufficient funds to pay the principal of, premium, if any, and interest on the Bonds is dependent upon certain factors which include, but are not limited to, (a) the continuing need of the Academy for the Project, (b) the ability of the Academy to obtain funds (including State School Aid) to pay obligations associated with the Bonds, (c) the demographic conditions within the service area of the Academy, and (d) the value of the Project and other assets of the Academy upon foreclosure sale under the Mortgage instituted by the Trustee pursuant to the Indenture and Mortgage and upon exercise of the remedies available under the Indenture.

## **Competition for Students**

The Academy competes for students with other public school academies, traditional public school districts, and private schools. There can be no assurance that the Academy will attract and retain the number of students that are needed to produce the pledged revenues that are necessary to pay the debt service on the Bonds. Several public school academies, public schools and private schools are located in close proximity to the Academy. Refer to “APPENDIX A – AMERICAN MONTESSORI ACADEMY – Service Area and Competing Schools,” for information regarding other schools in the Academy’s service area and schools that compete with the Academy.

## **Factors Associated with Education**

There are a number of factors affecting elementary and secondary school education in general, including the Academy, which could have an adverse effect on the Academy’s financial position and its ability to make Academy Payments required under the Indenture. These factors include, but are not limited to, increasing costs of compliance with federal or state regulatory laws or regulations, including, without limitation, the No Child Left Behind Act of 2001; laws or regulations concerning environmental quality, work safety and accommodating persons with disabilities; any unionization of the Academy’s work force with consequent impact on wage scales and operating costs of the Academy; the ability to attract a sufficient number of students; changes in existing statutes pertaining to the powers of the Academy and legislation or regulations which may affect program funding. The Academy cannot assess or predict the ultimate effect of these factors on its operations or its ability to make the Academy Payments.

## **Compliance with the No Child Left Behind Act of 2001**

In accordance with the Federal No Child Left Behind Act of 2001 (“NCLB”), the Michigan Department of Education identified public schools in the State of Michigan not making Adequate Yearly Progress (“AYP”) in mathematics and/or English language arts. For information regarding the Academy’s AYP status and its State School Improvement phase designation, see “APPENDIX A – AMERICAN MONTESSORI ACADEMY – Academic Performance.”

The No Child Left Behind Act strengthens requirements for state assessments, accountability systems, and support for school improvement. The law also establishes minimum qualifications for teachers and paraprofessionals. Failure of the Academy to meet the requirements of NCLB may have a material adverse effect on the Academy and its ability to make Academy Payments.

## **Performance by Management Company**

The Academy has entered into a consultancy services agreement with CS Partners, LLC (“CS”), for certain business and educational services (the “Management Agreement”). Founded in 2004, CS currently provides services to eight (8) public school academies in Michigan. No assurances can be made that CS will continue to operate school facilities or remain financially able to perform its obligations under the Management Agreement. CS fails to perform its management duties properly, it could adversely affect the Academy’s ability to attract students and could materially adversely affect its ability to generate sufficient revenues to make the Academy Payments. If CS ceases to serve in its capacity, the Academy’s ability to continue its operations would in large part be dependent upon the Academy’s ability to operate, manage and maintain the Project and the Academy’s other campuses itself or to contract with another company competent to operate, manage, and maintain the Project. Its failure to do so would materially adversely affect the Academy’s ability to make the Academy Payments. The Management Agreement is on file with the Trustee. See “APPENDIX A – AMERICAN MONTESSORI ACADEMY – Educational Service Provider.”

## **Future Need for the Project**

Changes of economic, social or other conditions could affect demographics of the Academy and reduce the Academy’s ability, need or willingness to utilize the Project. The Academy is not legally prohibited from constructing additional facilities at any time. Changes in future needs may have an adverse effect upon the willingness and ability of the Academy to budget money to continue the Project or make Academy Payments under the Indenture.

### **Collateral Insufficiency**

In the event of a default under the Indenture, the indebtedness thereunder may be accelerated and the Mortgage foreclosed by the Trustee.

A potential purchaser of the Bonds should not assume that it will be possible to obtain proceeds from the foreclosure of the Mortgage and the sale of the Project or from the sale of property secured by the Security Agreement after a foreclosure of the Mortgage, for an amount equal to the aggregate principal amount of the Bonds then outstanding plus accrued interest thereon. Such risks include environmental matters, fire and other casualty, condemnation, increased taxes, changes in demand for the facilities, decline in local and general economic conditions and changing governmental regulations. If the Project is sold pursuant to a foreclosure sale under the Mortgage (and there is no assurance that there would be any purchaser upon a foreclosure sale) for an amount less than the aggregate principal amount of and accrued interest on the Bonds, such partial payment may be the only payment to the Bondholders; upon such partial payment, no holder of any Bond shall have any further claim for payment from the Trustee, other than claims arising from the Academy's general obligation pledge.

### **Inability to Liquidate or Delay in Liquidating the Project**

An event of default that has occurred and is continuing gives the Trustee the right of possession of, and the right to sell, the Project pursuant to a foreclosure sale under the Mortgage. The Project is intended to be used for the public school purposes of the Academy. Because of such use, a potential purchaser of the Bonds should not anticipate that a sale of the Project could be accomplished rapidly, or at all. Any sale of the Project would require compliance with the laws of the State of Michigan. Such compliance may be difficult, time-consuming and/or expensive. Any delays in the ability of the Trustee to foreclose on the Mortgage would result in delays in the payment of the Bonds.

The Project was specifically constructed for use as a school facility and may not be readily adaptable to other uses. As a result, in the event of a sale of the Project, the number of uses that could be made of the property, and the number of entities that would be interested in purchasing the Project, could be limited, and the sale price would be thus affected. The location of the Project may also limit the number of potential purchasers. The ability of the Trustee to sell the Project to third parties, thereby liquidating the investment, would be limited as a result of the nature of the Project. For these reasons no assurance can be made that the amount realized upon any sale of the Project will be fully sufficient to pay and discharge the Bonds. In particular, there can be no representation that the cost of the property included in the Project constitutes a realizable amount upon any forced sale thereof. In the event the Trustee takes possession of the Project, the Project may be subject to real estate taxation.

### **Damage or Destruction of the Project**

The Indenture requires that the Academy's property be insured against certain risks in certain amounts. There can be no assurance that the amount of insurance required to be obtained will be adequate or that the cause of any damage or destruction will be as a result of a risk. Further, there can be no assurance of the creditworthiness of the insurance companies from which the Academy will obtain the required insurance policies.

### **Value of Property May Fluctuate**

The value of the Project at any given time will be directly affected by market and financial conditions which are not in the control of the parties involved in the transaction. Real property values can fluctuate substantially depending in large part on the state of the economy. There is nothing associated with the Academy's property which would suggest that its value would remain stable or would increase if the general values of property in the community were to decline.



## **Key Management**

The creation of, and the philosophy of teaching in, public school academies such as the Academy may reflect the vision and commitment of a few key persons who are on the Board of Trustees and/or who make up the upper management of the Academy (“Key Members/Managers”). Loss of such Key Members/Managers could adversely affect the Academy’s operations or financial results. It is anticipated that over time that public school academies will become less dependent upon the Key Members/Managers. However, there can be no assurance that this will occur.

## **Resale of Bonds/Lack of Secondary Market**

There can be no assurance that there will be a secondary market for the Bonds.

## **Enforceability of Remedies; Bankruptcy**

Remedies provided for in the Indenture, the Mortgage, and the Indenture may be unenforceable as a result of the application of principles of equity or of state and federal laws relating to bankruptcy, other forms of debtor relief, and creditors’ rights generally. Furthermore, it is not certain whether a court would permit the exercise of the remedies of repossession and sale or leasing with respect thereto. The enforcement of any remedies provided in the Indenture, the Mortgage and the Indenture could prove both expensive and time consuming.

Bankruptcy proceedings by the Academy also could have adverse effects on holders of the Bonds, including (a) delay in enforcement of their remedies, (b) subordination of their claims to claims of those supplying goods and services to the Academy after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings, and (c) imposition without their consent of a plan of reorganization reducing or delaying payment of the Bonds. The United States Bankruptcy Code contains provisions intended to ensure that, in any plan of reorganization not accepted by at least a majority of any class of creditors such as the holders of the Bonds, such class of creditors will have the benefit of their original claim or the “indubitable equivalent” of it, although the plan may not provide for payment in full of the Bonds. The effect of these and other provisions of the United States Bankruptcy Code cannot be predicted and may be affected significantly by judicial interpretation.

## **Determination of Taxability**

If a Determination of Taxability (as defined in the Indenture) were to occur, the Bonds would be subject to mandatory redemption, as a whole and not in part, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date, on the earliest practicable date for which notice can be given following such determination. No assurance can be made that under these circumstances, the Academy would possess the ability to make the required payments.

## **Factors Associated with the Academy’s Operations**

There are a number of factors affecting schools in general that could have an adverse effect on the Academy’s financial position and ability to make the debt service payments required under the Indenture. These factors include, but are not limited to, increasing costs of compliance with federal or State regulatory laws or regulations, including, without limitation, laws or regulations concerning environmental quality, work safety and accommodation of persons with disabilities; any unionization of the Academy’s workforce with consequent impact on wage scales and operating costs of the Academy; the ability to attract a sufficient number of students; changes in existing statutes pertaining to the powers of the Academy and disruption of the Academy’s operations by real or perceived threats against the school, its staff members or students. The Academy cannot assess or predict the ultimate effect of these factors on its operations or financial results of its operations or on its ability to make debt service payments with respect to the Bonds.

## TAX MATTERS

In the opinion of the Attorney General of the State of Michigan and in the opinion of Dickinson Wright, Bond Counsel, based on their examination of the documents described in their opinions, under existing law, the interest on the Bonds (a) is excluded from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that certain corporations must take into account interest on the Bonds in determining adjusted current earnings for the purpose of computing such alternative minimum tax. The opinion set forth in clause (a) above is subject to the condition that the Issuer and the Academy comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. These requirements include rebating certain earnings to the United States. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The Academy, on behalf of itself and the Issuer, has covenanted in the Indenture to comply with all such requirements. Bond Counsel and the Attorney General will express no opinion regarding other federal tax consequences arising with respect to the Bonds and the interest thereon.

Prospective purchasers of the Bonds should be aware that (i) interest on the Bonds is included in the effectively connected earnings and profits of certain foreign corporations for purposes of calculating the branch profits tax imposed by Section 884 of the Code, (ii) interest on the Bonds may be subject to a tax on excess net passive income of certain S corporations imposed by Section 1375 of the Code, (iii) interest on the Bonds is included in the calculation of modified adjusted gross income for purposes of determining taxability of social security or railroad retirement benefits, (iv) the receipt of interest on the Bonds by life insurance companies may affect the federal tax liability of such companies, (v) in the case of property and casualty insurance companies, the amount of certain loss deductions otherwise allowed is reduced by a specific percentage of, among other things, interest on the Bonds, (vi) holders acquiring the Bonds subsequent to initial issuance will generally be required to treat market discount recognized under Section 1276 of the Code as ordinary taxable income, (vii) the receipt or accrual of interest on the Bonds may cause disallowance of the earned income credit under Section 32 of the Code, and (viii) interest on the Bonds is subject to backup withholding under Section 3406 of the Code in the case of holders that have not reported a taxpayer identification number and are not otherwise exempt from backup withholding; and (ix) holders of the Bonds may not deduct interest on indebtedness incurred or continued to purchase or carry the Bonds.

In addition, in the opinion of the Attorney General of the State of Michigan and in the opinion of Dickinson Wright, Bond Counsel, based on their examination of the documents described in their opinions, under existing law, the Bonds and the interest thereon are exempt from all taxation by the State of Michigan or a political subdivision thereof, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

On May 21, 2007, the United States Supreme Court agreed to review the decision of a Kentucky appellate court in the case of Davis v. Department of Revenue of Kentucky and on November 5, 2007 heard oral arguments in this case. The Kentucky court held that under the Constitution of the United States, the Commonwealth of Kentucky may not exempt interest on bonds issued by that state or political subdivisions thereof from state and local taxes unless that state also provides such exemption to interest on bonds issued by other states and political subdivisions. Michigan law is similar to the Kentucky law in question, in that it generally exempts from state and local taxes interest on bonds issued by the State of Michigan and Michigan political subdivisions, but not interest on bonds issued by other states or political subdivisions. The outcome of such review, and its impact, if any, on the exemption of the Bonds and interest thereon from state and local taxes in Michigan, or on the market value of the Bonds, cannot be predicted.

No assurance can be given that any future legislation or clarifications or amendments to the Code, if enacted into law, will not contain proposals that could cause the interest on the Bonds to be subject directly or indirectly to federal or State of Michigan income taxation, adversely affect the market price or marketability of the Bonds, or otherwise prevent the registered owners from realizing the full current benefit of the status of the interest thereon.

Further, no assurance can be given that any such future legislation, or any actions of the Internal Revenue Service, including, but not limited to, selection of the Bonds for audit examination, or the audit process or result of any examination of the Bonds or other Bonds that present similar tax issues, will not adversely affect the market price of the Bonds.

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR PURCHASE, OWNERSHIP OR DISPOSITION OF BONDS.

### **APPROVAL OF LEGAL PROCEEDINGS**

Legal matters incident to the authorization, issuance and sale by the Issuer of the Bonds will be passed upon by Bond Counsel and the Attorney General of the State of Michigan. Copies of the approving opinion of Bond Counsel and of the Attorney General will be available at the time of the delivery of the Bonds. Certain legal matters will be passed upon for the Academy by Clark Hill PLC, Birmingham, Michigan, and by Dykema Gossett PLLC, Lansing, Michigan in its capacity as counsel to the Underwriter.

### **UNDERWRITING**

The Bonds are being purchased by the Underwriter pursuant to a bond purchase agreement at prices which, if the Bonds are sold at the prices and yields shown on the inside cover page, will result in Underwriter's compensation of \$109,200. The obligation of the Underwriter to accept delivery of the Bonds is subject to various conditions contained in the bond purchase agreement. The bond purchase agreement provides that the Underwriter will purchase all of the Bonds if any are purchased. The Bonds may be offered and sold to certain dealers, banks and others at prices lower than the initial offering prices, and such initial offering prices may be changed from time to time by the Underwriter. Neither the Attorney General nor Dickinson Wright PLLC will express any opinion concerning the investment quality of the Bonds, or the accuracy, completeness or sufficiency of any offering material relative to the Bonds.

### **LITIGATION**

There is no litigation of any nature pending or threatened against the Academy to restrain or enjoin the issuance, sale, execution, or delivery of the Bonds or the application of the proceeds thereof toward the costs of the Project, or in any way contesting or affecting the validity of the Bonds or any proceedings of the Academy taken with respect to the issuance or sale thereof, or the pledge or application of any monies or security for the Bonds or the existence or powers of the Academy.

There is no litigation pending or, to the knowledge of the Academy, threatened against the Academy, wherein an unfavorable decision would adversely affect the ability of the Academy to carry out its obligations under the Financing Agreement or the Indenture or would have a material adverse impact on the financial position of the Academy.

### **CONTINUING DISCLOSURE**

The Academy will execute and deliver a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement"), with respect to the Bonds. The Continuing Disclosure Agreement is made for the benefit of the registered and Beneficial Owners (as defined in the Continuing Disclosure Agreement) of the Bonds and in order to assist the Underwriter in complying with its obligations pursuant to Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Continuing Disclosure Rule"). See "APPENDIX G – FORM OF CONTINUING DISCLOSURE AGREEMENT."

Pursuant to the Continuing Disclosure Agreement, the Academy will agree to provide, or cause to be provided, annually to designated information repositories certain quantitative financial information and operating data of the type specified in the Continuing Disclosure Agreement (the "Annual Report"); and to provide in a timely manner to designated information repositories notice of the occurrence of certain events, if material (within the meaning of the Continuing Disclosure Rule), and of any failure to provide the Annual Report when due. The Continuing Disclosure Agreement does not require that information be provided to registered owners or Beneficial

Owners of the Bonds, but rather requires only that such information be provided to certain information repositories. The Academy has never failed to comply in all material respects with any previous undertaking with regard to the Rule to provide financial information and data, operating data or material events.

### **BONDS NOT A DEBT OF STATE**

The Bonds will not constitute or create any debt or debts, liability or liabilities on behalf of the State or any political subdivision thereof, other than a limited obligation of the Issuer, nor a loan of the credit of the State or a pledge of the faith and credit of the State or of any such political subdivision, but will be payable solely from the funds provided therefor. The issuance of Bonds under the Indenture will not directly, indirectly or contingently obligate the State of Michigan, the Issuer, or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor, or to make any appropriation for their payment. The Issuer has no taxing power.

### **LEGALITY FOR INVESTMENT**

Subject to any applicable federal requirements or limitations, the Bonds, in the State of Michigan, are securities in which all insurance companies, banks, trust companies, savings banks and savings associations, savings and loan associations, investment companies, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons whatsoever who are authorized to invest in bonds or other obligations of the State, may properly and legally invest funds, including capital, in their control or belonging to them.

### **NO RATING**

The Bonds have not been rated and neither the Issuer nor the Academy has requested a rating agency to provide a rating on the Bonds.

### **FINANCIAL STATEMENTS**

The financial statements of the Academy, as of and for the year ended June 30, 2005, June 30, 2006 and June 30, 2007, included in this Official Statement have been audited by Darnell & Meyering, P.C., to the extent and for the periods indicated in their report thereon. Such financial statements have been included in reliance upon the report of Darnell & Meyering, P.C., which has not been asked to undertake any additional review in connection with the preparation of this Official Statement. The Academy is not aware of any facts that would make the audited financial statements misleading.

### **MISCELLANEOUS**

The Bonds are intended to be exempt securities under the Securities Act of 1933, as amended (the “1933 Act”), and the offer, sale and delivery of the Bonds does not require registration under the 1933 Act or qualification of the Indenture under the Trust Indenture Act of 1939. The Academy has agreed that, during the course of the transaction and prior to the sale of the Bonds, potential investors may ask questions of and receive answers from its representatives concerning the terms and conditions of the offering and that potential investors may obtain from it any additional information necessary to verify the accuracy of the information furnished, in each case to the extent it possesses such information or can acquire it without unreasonable effort or expense. Any request for information may be directed to the Underwriter.

The Academy has furnished the information herein relating to itself. The Issuer has furnished the information herein relating to itself. The Underwriter has furnished the information in this Official Statement with respect to the offering prices of the Bonds and the information under the caption “UNDERWRITING.”

All quotations from, and summaries and explanations of, the Indenture and other documents referred to herein do not purport to be complete, and reference is made to said documents for full and complete statements of their provisions. All references herein to the Bonds are qualified by the definitive forms thereof and the information with respect thereto contained in the Indenture. This Official Statement shall not be construed as constituting an agreement with purchasers of the Bonds. The cover page, introductory statement and the attached Appendices are part of this Official Statement. All information contained in this Official Statement, including the Appendices, is

subject to change and/or correction without notice and neither the delivery of this Official Statement nor any sale made hereunder creates any implication that the information contained herein is complete or accurate in its entirety as of any date after the date hereof.

ANY STATEMENTS MADE IN THIS OFFICIAL STATEMENT INVOLVING MATTERS OF OPINION OR ASSUMPTIONS OR ESTIMATES, WHETHER OR NOT SO EXPRESSLY STATED, ARE SET FORTH AS SUCH AND NOT AS REPRESENTATIONS OF FACT AND NO REPRESENTATION IS MADE THAT ANY OF THE ESTIMATES OR ASSUMPTIONS WILL BE REALIZED.

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**APPENDIX A**

**AMERICAN MONTESSORI ACADEMY**

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## **APPENDIX A<sup>1</sup>**

### **AMERICAN MONTESSORI ACADEMY**

#### **General**

American Montessori Academy (the “Academy”) is a public school academy and governmental agency of the State of Michigan, organized pursuant to Part 6A of Act No. 451 of the Public Acts of 1976, Michigan Compiled Laws (“M.C.L.”) Section 380.501 et. seq. (the “Revised School Code”) and the Michigan Nonprofit Corporation Act, Act No. 162 of the Public Acts of 1982, M.C.L. Section 450.2101 et. seq.

The Academy began operations as a public school academy in 2004 enrolling 168 students and offering grades Kindergarten through Third with the intention of adding one grade each successive year. During its three year history, the Academy has always been at building capacity, with a substantial waiting list. See “WAIT LIST INFORMATION” herein. In its first year, the Academy enrolled 168 students with a waiting list of 30 students. In 2005 the Academy added grade 4, reconfigured the existing building to enroll 190 students, and began the year with a waiting list of 60 students. In 2006 the Academy added grade 5 and constructed an addition to its building to accommodate increased enrollment, and enrolled 297 students with 112 on the waiting list. For the 2007-08 school year, the Academy has added grade 6 to provide a complete K through 6 education.

The Academy is governed by a volunteer Board of Directors and operates under a charter contract (the “Charter”) with the Board of Regents of Bay Mills Community College (“BMCC”), its authorizing body. The charter contract has an eight year term expiring June 30, 2012 unless sooner terminated in accordance with the terms of the Charter (see discussion below under the caption “THE CHARTER AGREEMENT”).

The Academy’s students are diverse in terms of socio-economic background and educational needs. The Academy is located in Livonia, Michigan, a fully developed inner-ring middle-class suburb of Detroit. While the Academy attracts many students from its home community, it also draws students from Redford Township, the City of Detroit, Garden City, and other areas deemed less-affluent. In addition, while it has many high achieving students, the Academy also serves a high proportion of students qualifying for special education services.

The Montessori philosophy and program is well suited to serving a diverse student body, and the atmosphere created at the Academy enables the students to become caring, well-rounded individuals who have an appreciation for character, social development and academic achievement.

#### **MISSION STATEMENT**

The mission of American Montessori Academy is to assist children in reaching their full potential and to build awareness and respect for their community and environment. A carefully planned, stimulating environment offers activities that promote the development of social skills, emotional growth and physical coordination, in addition to cognitive preparation. Implicit in the Academy’s mission is development of a self-confident mindset that will help ensure the students’ future success.

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<sup>1</sup> Information included in Appendix A of this Official Statement was obtained from the Academy unless otherwise noted.

The Academy's mission is achieved by providing learning activities that are individualized and geared to specific readiness levels; helping each child develop independence through activities that build upon previously acquired knowledge; assisting each child in developing attention and concentration skills; and fostering a deep, persistent and abiding desire for a lifetime of learning.

## **CURRICULUM**

### **The Montessori Philosophy**

The Montessori philosophy of Dr. Maria Montessori guides instruction at the Academy. Dr. Montessori's work in developmental psychology and education helped give focus to the need for educational reform in the early years of the 20<sup>th</sup> century. Concepts popular today such as individualized learning, student-centered classrooms, the use of manipulatives, team teaching, and combining age groups trace their lineage to Dr. Montessori's efforts directed at enhancing the opportunity for all children to learn.

Through extensive interaction with children, Dr. Montessori became interested in the impact of educational practices on the total development of the child. She observed that children blossom when they are allowed freedom in an environment suited to their needs. After a period of intense concentration, working with materials that fully engage their interest, children appear to be refreshed and contented. Through continued concentrated work of their own choice, children grow in inner discipline and peace.

The Montessori approach recognizes that each child is born to be a learner, but that a learner's full potential will be realized only within an ordered, challenging and nurturing environment that stimulates learning and discovery. It was Montessori's contention that the learning environment can be designed to facilitate independent learning and exploration. The Montessori environment therefore contains specially designed, manipulative materials that invite children to engage in learning activities of their own individual choice. Under the guidance of a trained teacher, children's developmental needs are met through a process of discovery using materials and cultivating concentration, motivation, self-discipline and a love of learning.

### **The Academy's Montessori Curriculum**

The Academy provides a curriculum combining Montessori principles and modern instructional practices. Innovations include the use of Montessori-developed multi-sensory, sequential and self-correcting materials that facilitate skill development and lead to learning of abstract concepts. Learning is self-paced but facilitated by classroom teachers certified in elementary education by the State of Michigan and certified as Montessori teachers through an intensive program in Montessori philosophy and methodology. The curriculum is aligned with Michigan state standards and benchmarks and specifies requisite content and skills for each of the core subject areas, as well as health, physical education, art and music. The curriculum's richness and depth, combined with the motivating elements of the Montessori philosophy, is designed to engage students and challenge them to work to their full capacity.

## **THE CHARTER AGREEMENT**

The Academy operates under a charter contract (the "Charter") with the Board of Regents of Bay Mills Community College (the "BMCC" or the "Authorizing Body"). As the Academy's authorizing body, BMCC is responsible for overseeing the Academy in complying with its Charter and other applicable state and federal laws pertaining to Michigan public school academies. The Board of Regents of Bay Mills Community College (the "BMCC Board") receives 3% of the Academy's state aid funds for providing such oversight and acting as the Academy's fiscal agent. As a matter of Michigan law,

decisions to renew or not renew the Academy's Charter are in the sole discretion of the BMCC Board. The Academy's Charter may be terminated, suspended or revoked by BMCC at any time prior to the expiration of the charter term. On September 23, 1997, the Attorney General of Michigan issued a formal opinion that an authorizing body's decision to revoke a charter or decline to renew a charter for the operation of a public school academy is not subject to judicial review under State law.

Under the terms and conditions of the Charter, the Charter may be revoked by the BMCC Board **at any time, for any reason**. Unless otherwise agreed to by the BMCC Board and the board of directors of the Academy (the "Academy Board"), the Charter would terminate at the end of the school year in which the Charter is terminated pursuant to this provision.

Under the terms and conditions of the Charter, the Charter may also be revoked by the BMCC Board, upon a determination by the BMCC Board that one or more of the following statutory grounds for revocation has occurred:

- a) Failure of the Academy to abide by and meet the educational goals set forth in the Charter; or
- b) Failure of the Academy to comply with all state and federal law applicable to public school academies ("Applicable Law"); or
- c) Failure of the Academy to meet generally accepted public sector accounting principles; or
- d) The existence of one or more other grounds for revocation as specified in the Charter.

In addition to the statutory grounds for revocation set forth above, the BMCC Board may also revoke the Charter, pursuant to procedures set forth in the Charter, upon a determination by the BMCC Board that one or more of the following has occurred:

- a) The Academy is insolvent, has been adjudged bankrupt, or has operated for two or more school fiscal years with a fund balance deficit;
- b) The Academy has insufficient enrollment to successfully operate a public school academy, or the Academy has lost more than 50% of its student enrollment from the previous school year;
- c) The Academy defaults in any of the terms, conditions, promises or representations contained in or incorporated into the Charter;
- d) The Academy files amendments to its Articles of Incorporation with the Michigan Department of Labor and Economic Growth, Bureau of Commercial Services without first obtaining BMCC Charter School Office approval;
- e) The BMCC Charter Schools Office Director discovers grossly negligent, fraudulent or criminal conduct by the Academy's applicant(s), directors, officers, employees or agents in relation to their performance under the Contract; or
- f) The Academy's applicant(s), directors, officers, employees or agents have provided false or misleading information or documentation to the BMCC Charter School Office in connection with the BMCC Board's approval of the Charter application, the issuance of

the Charter, or the Academy's reporting requirements under the Charter or applicable law.

The Charter also provides that BMCC may immediately suspend the Charter, pending completion of procedures set forth in the Charter pertaining to revocation of the Charter, if the BMCC Charter School Office Director determines that probable cause exists to believe that the Academy:

- a) Has placed staff or students at risk;
- b) Is not properly exercising its fiduciary obligations to protect and preserve the Academy's public funds and property;
- c) Has lost its right to occupancy of the physical facility for the Academy and cannot find another suitable physical facility for the Academy prior to the expiration or termination of its right to occupy its existing physical facilities;
- d) Has failed to secure or lost the necessary fire, health and safety approvals as required by the Charter;
- e) Has willfully or intentionally violated the Charter or Applicable Law; or
- f) Has violated the requirements described in (e) and (f) of the section immediately above (regarding revocation).

The Charter provides procedures pursuant to which the Charter may be revoked by the BMCC Board. Those procedures require the BMCC Charter School Office to issue a notice of intent to revoke notifying the Academy of the BMCC Charter School Office's reasonable belief of grounds for revocation. The Academy's Board has 30 days to respond in writing, and must include a plan for correcting any admitted non-compliance. Within 15 days of receipt of the Academy's response, BMCC Charter School Office formulates its own plan of correction, and in so doing may adopt, modify or reject some or all of the plan proposed in the Academy's response. The revocation proceedings are closed if (i) the Academy Board's denial of non-compliance is persuasive, (ii) the non-compliance has been corrected by the Board, or (iii) the Academy has successfully completed the plan of correction. BMCC Charter School Office Director may initiate a revocation hearing before a BMCC Charter Schools Hearing Panel (the "Hearing Panel") if none of these conditions are met, or if BMCC Charter School Office determines that a plan of correction cannot be formulated, or if the Academy has been issued multiple or repeated notices of intent to revoke. The Hearing Panel convenes within 30 days after the hearing and makes a recommendation concerning revocation which is submitted to the BMCC Board. The BMCC Board may approve, reject or modify all or any part of the Hearing Panel's recommendation. If the BMCC Board votes to revoke the Charter, the revocation may be immediately effective, and there is no appeal process provided. The BMCC Charter School Office Director may also immediately suspend the Charter (upon a determination that one of the grounds set forth above exists) pending completion of the revocation procedures described above. In addition, the Hearing Panel may immediately convene a revocation hearing in accordance with the above described procedures and has the authority to accelerate the time line for revoking the Charter with five (5) day notice to the Academy Board, and may recommend revocation of the Charter if the Hearing Panel determines that the Academy Board has continued to engage in conduct or activities that are covered by the suspension notice.

## **BOARD OF DIRECTORS**

The governing body for the Academy currently consists of consists of five (5) members. Vacancies in office are determined and filled pursuant to the provisions set forth in the Academy's Bylaws. The current Academy Board members are as follows:

### **Michael Hale - President**

Mr. Hale currently serves as President of the Board and has served on the Board since its inception. Mr. Hale is an attorney and President of the Michigan Association for Child Care Providers, a nationally recognized nonprofit organization providing legal, insurance and consultancy services to its members. Mr. Hale holds a law degree from the Detroit College of Law. Mr. Hale's term expires June 30, 2008.

### **Karen Hilt - Treasurer**

Ms. Hilt serves as the Board Treasurer and has been a Board member since 2005. Ms. Hilt is presently a Regional Manager for Lush Handmade Cosmetics and has formerly held executive sales and management positions with other national retail chains. Ms. Hilt is a founding parent at the Academy, and her son, Calvin, attends the school. Ms. Hilt holds degrees in Liberal Arts and Applied Science. Her term with the Board expires June 30, 2008.

### **Elizabeth Brown – Vice President**

Ms. Brown is a member of the Board and has served since 2005. Ms. Brown is a Montessori trainer and consultant and has worked in the field of Early Childhood Education for 15 years. Ms. Brown holds Montessori certifications in both pre-primary areas, Infant/Toddler and Age 3-6. Ms. Brown is a graduate of Eastern Michigan University and has a Bachelor's degree in Elementary Education with an endorsement in Early Childhood Education. Her term on the Board expires June 30, 2009.

### **Amy Kay Estrada – Secretary**

Ms. Estrada was appointed to the Board in 2007. Ms. Estrada is a parent of a student at the Academy and has served in the past as a parent representative. Ms. Estrada is a stay at home mom and formerly held positions in merchandising. Ms. Estrada is a graduate of Wayne State University and has a Bachelor's degree in English. Her term on the Board expires June 30, 2010.

### **Mollie Brendel – Member**

Ms. Brendel was appointed to the Board in 2007. Ms. Brendel has middle school and high school teaching and Montessori internship experience. Ms. Brendel has a Bachelor's degree in Secondary Education from Central Michigan University and a Masters degree in Elementary Education from Wayne State University. Ms. Brendel also has a Montessori Preprimary Certification. Her term on the Board expires June 30, 2010.

## **EDUCATIONAL SERVICE PROVIDER**

The Academy is a party to an educational provider agreement with CS Partners, LLC (“CS”), pursuant to which CS manages the affairs of and provides educational services to the Academy. CS’s agreement with the Academy expires June 30, 2010. CS is a Michigan limited liability company established in 2004, with offices at 11344 Highland Road, Hartland, Michigan, that provides public school academies with services and products, including business management, curriculum, educational programs, teacher training and technology. CS is currently the educational service provider for eight Michigan public school academies. Academy faculty and staff are employed by or are contractors of CS.

### **SUMMARY OF THE EDUCATIONAL PROVIDER AGREEMENT**

The following is a brief summary of certain provisions of the Educational Provider Agreement between American Montessori Academy and CS Partners, LLC (the “Agreement”). The following summary is not intended to be definitive, and it is not a complete explanation of all provisions of the Agreement. Reference should be made to the Agreement, which is available from the Underwriter, for a complete recital of its terms.

#### **Agreement to Operate: Term of the Agreement**

Pursuant to the terms of the Agreement, CS has agreed to provide administrative, personnel and business services to the Academy necessary for the operation, maintenance and management of the school, and to provide educational services for the pupils enrolled at the Academy.

The term of the Agreement is for the period commencing July 1, 2007 and ending on June 30, 2010.

#### **Service Provided by CS**

Under the terms of the Agreement, CS is required to provide the following business and administrative support services, which services are to be provided by independent contractors or employees of CS at the sole discretion of CS, unless the Academy Board requires otherwise: (a) implementation and administration of the educational program, including administration of any and all extra-curricular and co-curricular activities and programs, and the acquisition of instructional materials, equipment and supplies; (b) management of all personnel functions, including professional development for all instructional personnel outlined in the Agreement; (c) all aspects of business administration; (d) food service as the Academy Board decides to implement; and (e) any other function necessary or expedient for the administration of the Academy with the approval of the Academy Board.

All staff at the Academy will be employed by CS. Currently, the Academy staff includes 2 administrators, 1 administrative assistant, 13 full-time teachers, 12 aids, and additional employees.

#### **Compensation of CS**

As compensation for its services, CS is paid by the Academy (i) an annual fee of eleven percent (11%) of the product of the Academy’s State School Aid basic foundation allowance multiplied by the number of full-time equated pupils enrolled and in regular daily attendance on the pupil membership count day for the current school year subject to a minimum of \$212,000.00 per year and a maximum of \$424,000.00 per year; (ii) an operational services fee, payable monthly, equal to the cost of salaries, fringe benefits and local, state and federal income taxes incurred by CS in providing teacher services and

support personnel as well as the cost of insurance premiums; and (iii) reimbursement of expenses incurred by CS for the purchase of fixed assets for the benefit of the Academy.

## **THE PROJECT AND THE ACADEMY'S FACILITY**

The Academy currently serves grades Kindergarten through Sixth and operates from a single location at 14800 Middlebelt Road, Livonia, Michigan. Originally a church, this facility was entirely renovated in 2004 and expanded in 2006, and consists of approximately 21,200 square feet containing 12 classrooms, a multi-purpose room, adequate restroom facilities, as well as a conference rooms, offices and a staff lounge.

Due to high enrollment demand, the Academy may be applying to its Authorizing Body to expand to an additional site in the fall of 2008. Due to facility limitations, the Academy currently anticipates that any future expansion would be at a separate location. Any future expansion, including the acquisition of additional facilities, either by way of lease or purchase, would be subject to Authorizing Body approval and would be financed at a future date. The Bonds do not include moneys for future expansion.

The proceeds of the Bonds will be used to acquire the Academy's current facility located at 14800 Middlebelt, Livonia, Michigan (the "Facility") from Middlebelt Holdings, LLC, which developed the site and leases the Facility to the Academy. The Facility will be owned by the Academy and operated by the Academy. The bond financing will also allow the Academy to pay for the costs of issuing the bonds.

## **ENROLLMENT**

The Academy began operations in September of 2004 with grades K-3. During the succeeding three school years, the Academy added grades 4, 5 and 6 and expanded its Facility to meet student enrollment demand. The following table sets forth data provided by the Academy regarding its historical and projected enrollment as of September of each year (which projections do *not* include any possible future expansion of the Academy).

**Table 1**  
**Historical and Projected September Enrollment**

<u>Grades</u>	<u>2004- 2005</u>	<u>2005- 2006</u>	<u>2006- 2007</u>	<u>2007- 2008</u>	<u>2008- 2009</u>	<u>2009- 2010</u>	<u>2010- 2011</u>	<u>2011- 2012</u>	<u>2012- 2013</u>	<u>2013- 2014</u>
K	57	33	81	27	43	43	43	43	43	43
1	49	65	60	64	43	43	43	43	43	43
2	34	37	61	57	43	43	43	43	43	43
3	23	32	45	60	43	43	43	43	43	43
4	-	24	32	43	43	43	43	43	43	43
5	-	-	18	29	43	43	43	43	43	43
6	-	-	-	13	43	43	43	43	43	43
Total	<u>163</u>	<u>191</u>	<u>297</u>	<u>293</u>	<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>

Source: The Academy; data presented for 2004-05 through 2007-08 is actual data as of the beginning of those school years. Data presented for 2008-09 through 2013-14 is projected by the Academy and CS.

The Academy believes that its enrollment performance tracks a demand within the student demographic principally served by the Academy for educational choices other than those presented by the traditional public school districts, principally Redford area public schools and Livonia Public School District.

**Table 2**  
**Comparative Enrollment Growth**  
**Redford area public schools, Livonia Public Schools and the Academy**

	<u>Redford Union Schools</u>	<u>South Redford School District</u>	<u>Livonia</u>	<u>Academy</u>
2004-05	4,068	3,234	17,167	168
2005-06	3,830	3,364	17,071	190
2006-07	3,628	3,342	16,508	297

Source: The Academy, from data made available by the Michigan Department of Education.

### WAIT LIST INFORMATION

The following table sets forth data provided by the Academy regarding the number of students on its waiting list for the 2005-06, 2006-07 and 2007-08 school years.

**Table 3**  
**Historical Waiting Lists**

<u>Grade</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
K	45	72	80
1/2	10	27	22
3/4	5	13	22
5/6	<u>0</u>	<u>0</u>	<u>15</u>
Total	<u>60</u>	<u>112</u>	<u>139</u>

### SERVICE AREA AND COMPETING SCHOOLS

The majority of the Academy's students reside in the City of Livonia, Township of Redford, and City of Detroit. The Academy also serves Wayne County communities of Dearborn Heights, Dearborn, Romulus, Inkster, Garden City and Wayne.

Because the majority of the Academy's students reside in Redford, Livonia and Detroit, it competes for students mostly with public schools within those areas. There are nine public schools within approximately 6 miles of the Academy's location in Livonia, Michigan with similar grade offerings as the Academy, which the Academy views as competing with it with respect to enrollment of students:



**Table 4**  
**Local School Comparison**

<u>Academy</u>	<u>District</u>	<u>Distance from Academy</u>	<u>2005-06 Grades Offered</u>	<u>2005-2006 Enrollment</u>
Roosevelt Elementary School	Livonia Public Schools	6 miles	K-6	387
Buchanan Elementary School	Livonia Public Schools	2.5 miles	K-6	462
Coolidge Elementary School	Livonia Public Schools	2.3 miles	K-6	517
Cleveland Elementary School	Livonia Public Schools	3.1 miles	K-6	421
Cass Elementary School	Livonia Public Schools	4.2 miles	K-6	442
Jane Addams Elementary School	South Redford Public Schools	2.7 miles	K-5	268
MacGowan School	Redford Union Public Schools	3.6 miles	K-5	380
Botsford Elementary School	Clarenceville School District	3.1 miles	K-5	454
Bulman School	Redford Union Public Schools	2.3 miles	K-5	381

Due to a legislative “cap” on the number of charter schools that can be authorized by state universities, there is limited charter school competition expected in the near future. However state universities have in the past offered charters to new applicants from charters that have been relinquished either voluntarily or involuntarily by existing charter schools, and hence there can be no assurance that such a charter would not be granted in the future to a public school academy that may compete with the Academy.

Regarding community college authorizers, in the past 3 years, Bay Mills Community College (“BMCC”) has been the most active authorizer in the State. BMCC may authorize charter schools anywhere throughout the State of Michigan except within the boundaries of the Detroit Public School District.

Other community colleges and intermediate and local public school districts may also authorize charter schools within their district boundaries. To date, more than 230 charter schools have been authorized in Michigan by various authorizers.

## ACADEMIC PERFORMANCE

### Adequate Yearly Progress

The Academy met Adequate Yearly Progress (“AYP”) for the 2006-2007 academic year. The composite letter grade given by the State of Michigan was a C. The tables below detail the individual scores resulting in the composite grades. The composite grade is the overall grade for the school, arrived at by combining student achievement, indicators of school performance and AYP status. When data is available, it combines results over 2 or 3 years. A score and grade is assigned for each content area that is part of the Report Card. The score is calculated on a common school grading scale with 90-100 as an A. The score is based on achievement status and then averaged with the adjusted change score to yield the grade for the subject area.

The Academy undertook a review of its school improvement process to make revisions as required by No Child Left Behind legislation.

**Table 5**  
**Student Report Card – Elementary**

This report card is issued by the State of Michigan and provides an assessment of several measures of the Academy's elementary school performance.

	<u>Status Score</u> <u>2006-2007</u>	<u>Adjusted Score</u> <u>2006-2007</u>	<u>Ed Yes!</u> <u>Grade 2006-2007</u>
English Language Arts	63.3	63.3	D
Mathematics	72	72	C
Achievement Subtotal	67.6	67.7	D
Indicators of School Performance		85	B
Preliminary Grade		73	C
AYP Status		Met AYP	
(Adequate Yearly Progress)			
Composite Grade		C	

**Table 6**  
**Student Report Card – Performance Indicators**

School Performance Indicators capture the variety of ways in which the potential quality of an educational environment can be estimated. The following indicators are issued by the State of Michigan for the 2006-07 year:

<u>Criteria</u> <u>Rated</u>	<u>Possible</u> <u>Points</u>	<u>Total</u> <u>Points</u>	<u>Score</u>	<u>Indicator</u> <u>Score</u>	<u>Indicator</u> <u>Grade</u>
40	160	99	61.9	84.8	B

The School Performance Indicators measure investments that schools are making in improved student achievement based on indicators that come from research and best practice, and account for 1/3 of a school's Education YES! letter grade. The School Performance Indicators are based on research and best practice. The State of Michigan recently replaced the original 11 performance indicators with new Indicators that are based on the School Improvement Framework. Based on a review of the research on school improvement, rubrics to measure 40 key characteristics have been selected as having the most effect on student achievement. The State Board of Education approved the new Performance Indicators in December 2006.

### **Iowa Test of Basic Skills Standardized Test**

The Academy utilizes the Iowa Test of Basic Skills Standardized Test ("ITBS"), a normed achievement test, to measure the academic performance of their students. The following table reports the Academy's most recent ITBS results broken down by grade and subject:

**Table 7**  
**Academy's Most Recent ITBS Scores**

Math – Spring 2006 Testing		Reading – Spring 2006 Testing	
<u>Grade</u>	<u>National Percentile Ranking</u>	<u>Grade</u>	<u>National Percentile Ranking</u>
K	44	K	65
1	41	1	60
2	36	2	55
3	30	3	43
4	19	4	44

Source: The Academy

### **Michigan Educational Assessment Program – 2005-06 Student Assessment Data**

The Michigan Educational Assessment Program (MEAP) measures student performances against state standards in reading, writing, mathematics, science and social studies. During the 2004-05 school year, the Academy's students did not take the MEAP as they did not offer grade levels above 3<sup>rd</sup> grade (prior to 2005-06, only grades 4, 5, 7, and 8 were administered the MEAP). The Academy's 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> grade students were tested in October 2006.

**Table 8**  
**2006-2007 Michigan Education Assessment Program Data**

<u>Subject</u>	<u>Grade</u>	<u>Percent Exceeded or Met Standards</u>	<u>Percent at Basic Level</u>
Reading	3	75	18
Writing	3	30	41
ELA	3	59	30
Math	3	71	25
Reading	4	55	36
Writing	4	13	65
ELA	4	36	48
Math	4	42	42
Reading	5	67	28
Writing	5	22	61
ELA	5	50	39
Math	5	11	67

### **STATE AID PAYMENTS**

The Academy's principal source of revenue is a per-pupil base foundation allowance received from the State pursuant to the State School Aid Act of 1979 M.C.L. Section 388.1601 et. seq. Payments are sent directly to BMCC, which forwards the payments to the Academy, minus a 3% authorizer fee.

The following table shows the per-pupil base foundation allowance that public school academies received for the 2000-01 through 2006-2007 school years. It also shows the maximum foundation

allowance that the Michigan Legislature allowed public school academies for those years (the table does not show the amount of the payments the Academy actually received during those years). The Academy received the maximum foundation allowance in each of the years presented in the table below, and also received additional amounts based upon the at-risk student population of the Academy within a given school year. See “RISK FACTORS” in forepart of this Official Statement for additional information, including appropriation, reduction and termination of state aid payments.

**Table 9**  
**Per Pupil Basic Foundation Allowance**

<u>Fiscal Year</u>	<u>Minimum Basic Foundation Allowance Per Pupil</u>	<u>Public School Academy Maximum Foundation Allowance Per Pupil</u>	<u>Foundation Allowance Received by AMA</u>
2004-05	\$6,700	\$7,000	\$7,000
2005-06	6,875	7,175	7,175
2006-07	7,085	7,385	7,385
2007-08	7,204	7,475	7,475

Source: The Academy, from information published in the Michigan School Aid Act and published by the Michigan Department of Education.

### OTHER BORROWING

The Academy issued a state aid anticipation note in August 2007 with Key Bank National Association. The school borrowed \$720,000 with an interest rate of 4.75%. The debt matures in June 2008.

The Academy also has the following capital leases outstanding:

**Table 10**  
**Capital Leases Outstanding**

<u>Purpose</u>	<u>Monthly Payment</u>	<u>Lease Maturity</u>
Furniture, Fixtures and Equipment	\$1,062.35	08/01/10
Furniture, Fixtures and Equipment	1,699.76	08/01/10
Furniture, Fixtures and Equipment	3,187.06	06/01/10
Furniture, Fixtures and Equipment	1,193.89	06/01/09

Additional information regarding these leases is contained in Note 6 to the Academy’s fiscal year 2007 audited financial statements. These leases are *not* being refinanced with proceeds of the Bonds. These leases are *not* secured by a pledge of State School Aid or intercept of State School Aid. The coverage figures contained in Table 12 are before payment of any lease payments.

### DEBT HISTORY

The Academy has no record of default on prior debt financings.

## **FUTURE FINANCINGS**

As noted above under “THE PROJECT AND THE ACADEMY’S FACILITY,” the Facility cannot be easily expanded for future Academy enrollment growth. The Academy is considering its options for any future expansion. Any such expansion would be subject to approval by the Authorizing Body. No proceeds of the Bonds will be used for any future expansion project, which, if implemented, would be subject to additional financing or the issuance of Additional Bonds at a future date.

## **FEDERAL/STATE FUNDING**

Public school academy students are similar to public school students with respect to eligibility for federal entitlement programs. A public school academy may receive federal grant funds directly from the Michigan Department of Education by following the same procedures that local school districts are required to follow. Federal funding represents approximately 9% of the current fiscal year’s annual revenue.

## **BUDGET PROCESS AND INFORMATION**

The Academy’s Board of Directors is responsible for establishing, approving and amending an annual budget in accordance with the Uniform Budgeting and Accounting Act, M.C.L. 141.421, et. seq. The Academy Board must submit to the BMCC Charter Schools Office a copy of its annual budget for the upcoming fiscal year in accordance with the Master Calendar of Reporting Requirements. The budget must detail budgeted expenditures at the object level as described in the Michigan Department of Education’s Michigan School Accounting Manual. The Academy’s Board of Directors is also responsible for approving all revisions and amendments to the annual budget.

## **HISTORICAL AND PROJECTED REVENUES AND EXPENSES**

Set below is a table of the Academy’s historical and projected general fund revenues and expenses and changes in fund balance. The information presented for the Academy’s fiscal years ended June 30, 2005, 2006 and 2007 is actual data presented by the Academy, and for the fiscal years ending June 30, 2008 through 2011 is projected information provided by the Academy, which is based upon certain assumptions made by the Academy. The projections are based on historical operating data of the Academy and from the Academy’s assumptions about student enrollment and expenses.

NO GUARANTEE CAN BE MADE THAT THE PROJECTED INFORMATION WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE BECAUSE THERE IS NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE BY THE ACADEMY.

Major assumptions regarding these projections are set forth under “SUMMARY OF SIGNIFICANT ASSUMPTIONS” below.

**Table 11**  
**Historical and Projected General Fund Revenues**  
**and Expenses and Changes in Fund Balance**

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<b>Actual</b>	<b>Actual</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
<b>Projected Blended Enrollment</b>	<b>189</b>	<b>273</b>	<b>289</b>	<b>300</b>	<b>300</b>	<b>300</b>	<b>300</b>
<b>Projected Foundation Allowance</b>	<b>\$ 7,175</b>	<b>\$ 7,385</b>	<b>\$ 7,475</b>	<b>\$ 7,585</b>	<b>\$ 7,685</b>	<b>\$ 7,785</b>	<b>\$ 7,885</b>
<b>Revenue</b>							
Local	65,922	92,022	104,290	95,000	95,000	95,000	95,000
State	1,390,688	2,023,399	2,173,625	2,275,500	2,305,500	2,335,500	2,365,500
Federal	113,218	303,440	216,838	66,000	66,000	66,000	66,000
Other Transactions	167,000						
<b>Total Revenue</b>	<b>1,736,828</b>	<b>2,418,861</b>	<b>2,494,753</b>	<b>2,436,500</b>	<b>2,466,500</b>	<b>2,496,500</b>	<b>2,526,500</b>
<b>Expenditures</b>							
Basic Programs	482,287	922,612	903,000	912,030	948,511	986,452	1,025,910
Added Needs	24,549	72,622	164,164	90,000	92,700	95,481	98,345
Pupil Support	37,652	72,211	95,265	98,123	101,067	104,099	107,222
Instructional Support	64,659	49,030	39,635	5,000	5,150	5,305	5,464
General Administration	223,054	349,890	333,514	343,519	353,825	364,440	375,373
School Administration	140,839	219,764	221,039	227,670	234,500	241,535	248,781
Business Support	121,998	139,369	71,100	73,233	75,430	77,693	80,024
Operations and Maintenance	337,767	524,401	179,500	129,500	133,385	137,387	141,508
Transportation	-	-			-	-	-
Central	5,178	4,870	11,500	11,845	12,200	12,566	12,943
Community Services	12,438	24,139	23,377	24,078	24,801	25,545	26,311
Other	-	-			-		
Long Term Liabilities (non Building)	209,172	60,937	85,717	88,289	70,000	6,000	-
Long Term Liabilities (Building)	-		116,430	258,450	258,450	258,450	258,450
<b>Total Expenditures</b>	<b>1,659,593</b>	<b>2,439,845</b>	<b>2,244,241</b>	<b>2,261,737</b>	<b>2,310,019</b>	<b>2,314,951</b>	<b>2,380,331</b>
<b>Excess Revenues over Expenditures</b>	<b>77,235</b>	<b>(20,984)</b>	<b>250,512</b>	<b>174,763</b>	<b>156,481</b>	<b>181,549</b>	<b>146,169</b>
<b>Fund Balance Beginning of Year</b>	<b>27,272</b>	<b>104,507</b>	<b>83,523</b>	<b>334,035</b>	<b>508,797</b>	<b>508,797</b>	<b>665,278</b>
<b>Fund Balance End of Year</b>	<b>104,507</b>	<b>83,523</b>	<b>334,035</b>	<b>508,797</b>	<b>665,278</b>	<b>690,346</b>	<b>811,447</b>
<b>Fund Balance as % of Expenditures</b>	<b>6%</b>	<b>3%</b>	<b>15%</b>	<b>22%</b>	<b>29%</b>	<b>30%</b>	<b>34%</b>
<b>Debt Service on Bonds as % of State Aid</b>			<b>5%</b>	<b>11%</b>	<b>11%</b>	<b>11%</b>	<b>11%</b>

## DEBT SERVICE AND COVERAGE

The following table shows the debt service and projected state aid coverage for the Bonds:

**Table 12**  
**Debt Service Schedule and Projected State Aid Coverage**

Date	Principal	Interest	Total P+I	On-Going Expenses	Total Annual Debt Service	Coverage	20% of Gross State Aid	Gross State Aid*	State Aid Per Pupil**	ESTIMATED Blended Pupil Count
12/01/2008	-	\$ 240,120.83	\$ 240,120.83	\$ 3,059.59	\$ 243,180.42	1.78	\$ 432,055	\$ 2,160,275	\$ 7,475	289
12/01/2009	-	253,500.00	253,500.00	4,950.00	258,450.00	1.74	448,500	2,242,500	7,475	300
12/01/2010	-	253,500.00	253,500.00	4,950.00	258,450.00	1.74	448,500	2,242,500	7,475	300
12/01/2011	-	253,500.00	253,500.00	4,950.00	258,450.00	1.74	448,500	2,242,500	7,475	300
12/01/2012	\$ 60,000.00	253,500.00	313,500.00	4,950.00	318,450.00	1.41	448,500	2,242,500	7,475	300
12/01/2013	65,000.00	249,600.00	314,600.00	4,947.50	319,547.50	1.40	448,500	2,242,500	7,475	300
12/01/2014	70,000.00	245,375.00	315,375.00	4,917.30	320,292.30	1.40	448,500	2,242,500	7,475	300
12/01/2015	75,000.00	240,825.00	315,825.00	4,884.59	320,709.59	1.40	448,500	2,242,500	7,475	300
12/01/2016	80,000.00	235,950.00	315,950.00	4,849.38	320,799.38	1.40	448,500	2,242,500	7,475	300
12/01/2017	85,000.00	230,750.00	315,750.00	4,811.67	320,561.67	1.40	448,500	2,242,500	7,475	300
12/01/2018	90,000.00	225,225.00	315,225.00	4,771.46	319,996.46	1.40	448,500	2,242,500	7,475	300
12/01/2019	95,000.00	219,375.00	314,375.00	4,728.75	319,103.75	1.41	448,500	2,242,500	7,475	300
12/01/2020	100,000.00	213,200.00	313,200.00	4,683.55	317,883.55	1.41	448,500	2,242,500	7,475	300
12/01/2021	110,000.00	206,700.00	316,700.00	4,635.84	321,335.84	1.40	448,500	2,242,500	7,475	300
12/01/2022	115,000.00	199,550.00	314,550.00	4,585.42	319,135.42	1.41	448,500	2,242,500	7,475	300
12/01/2023	120,000.00	192,075.00	312,075.00	4,530.21	316,605.21	1.42	448,500	2,242,500	7,475	300
12/01/2024	130,000.00	184,275.00	314,275.00	4,472.50	318,747.50	1.41	448,500	2,242,500	7,475	300
12/01/2025	140,000.00	175,825.00	315,825.00	4,412.09	320,237.09	1.40	448,500	2,242,500	7,475	300
12/01/2026	150,000.00	166,725.00	316,725.00	4,346.67	321,071.67	1.40	448,500	2,242,500	7,475	300
12/01/2027	155,000.00	156,975.00	311,975.00	4,276.25	316,251.25	1.42	448,500	2,242,500	7,475	300
12/01/2028	170,000.00	146,900.00	316,900.00	4,201.05	321,101.05	1.40	448,500	2,242,500	7,475	300
12/01/2029	180,000.00	135,850.00	315,850.00	4,122.92	319,972.92	1.40	448,500	2,242,500	7,475	300
12/01/2030	190,000.00	124,150.00	314,150.00	4,037.50	318,187.50	1.41	448,500	2,242,500	7,475	300
12/01/2031	200,000.00	111,800.00	311,800.00	3,947.09	315,747.09	1.42	448,500	2,242,500	7,475	300
12/01/2032	215,000.00	98,800.00	313,800.00	3,851.67	317,651.67	1.41	448,500	2,242,500	7,475	300
12/01/2033	230,000.00	84,825.00	314,825.00	3,751.05	318,576.05	1.41	448,500	2,242,500	7,475	300
12/01/2034	245,000.00	69,875.00	314,875.00	3,642.92	318,517.92	1.41	448,500	2,242,500	7,475	300
12/01/2035	260,000.00	53,950.00	313,950.00	3,527.30	317,477.30	1.41	448,500	2,242,500	7,475	300
12/01/2036	275,000.00	37,050.00	312,050.00	3,404.17	315,454.17	1.42	448,500	2,242,500	7,475	300
12/01/2037	295,000.00	19,175.00	314,175.00	273.55	314,448.55	1.43	448,500	2,242,500	7,475	300
Total	\$3,900,000.00	\$5,278,920.83	\$9,178,920.83	\$127,471.99	\$9,306,392.82					

\* Gross State Aid Previous 12 Month Period Ending August 20

\*\* For a conservative view, assumed no increase in per pupil funding.

## SUMMARY OF SIGNIFICANT ASSUMPTIONS

The projected information in Tables 11 and 12 is projected based on a number of assumptions and variables. These assumptions and variables include:

### Revenue Assumptions and Variables

*Local.* Approximately 55% of local revenue is income earned on an after school latch key program. The remainder of local revenue is primarily Act 18 funds received from Wayne County RESA for reimbursement of special education costs and from investment earnings and other miscellaneous items.

*State.* Approximately 98% of all revenue received by the Academy is based on the State of Michigan per pupil foundation allowance and enrollment. We have budgeted a \$100 per pupil increase for years 2009 through 2012 with enrollment remaining steady at 300.

State law requires two membership student counts each school year; one on the fourth Wednesday in September (the “Fall Count”) and the other on the second Wednesday in February (the “Spring Count”). State law defines a “Blended Pupil Count” to be the current year Fall Count times a factor set by the State times and adding it to the prior year Spring Count times a factor set by the State. For the years ending June 30, 2005, 2006, and 2007, the current year factor is 75% and the prior year factor is 25%. The state foundation grant revenue is determined by multiplying the Blended Pupil Count by the per-pupil foundation allowance.

*Federal.* The Academy received a federal charter school implementation grant in years 2006/2007 & 2007/2008. Because the school is no longer eligible for that grant, the federal revenue decreases substantially in 2008/2009. Approximately 75% of federal revenue is IDEA funds received from the Intermediate School District for reimbursement of special education costs. The remainder of federal money is for Title funds related the schools free and reduced lunch population.

### Expenditure Assumptions

Percentage increase located next to each line item. All assumptions are based on type of expenditure and whether it relates primarily to staff salaries, external purchased services, or other definable areas. Staff salaries were increased annually by 3.0%

In fiscal year 2008/2009, Instructional expenditures only increases by 1% and Added Needs, Instructional Support decreases due to the lack of charter grant expenditures.

The Academy will also have a decrease in operational expenditures starting in 2007/2008 due to the reduction in Facility costs as a result of the purchase of the Facility with proceeds of the Bonds. The Facility’s current yearly lease expense is \$400,000.



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**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS FOR  
THE ACADEMY FOR THE YEAR  
ENDED JUNE 30, 2005  
JUNE 30, 2006 AND JUNE 30, 2007**

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**AMERICAN MONTESSORI ACADEMY**  
**Report on Financial Statements**  
**(With required supplementary information)**  
  
**Year Ended June 30, 2007**

**American Montessorri Academy**  
**Financial Report**  
**For the Fiscal Year Ended**  
**June 30, 2007**

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WENDY L. DANVILLE, C.P.A.

### Independent Auditors' Report

Board of Directors  
American Montessori Academy  
14800 Middlebelt Road  
Livonia, MI 48154

We have audited the accompanying financial statements of the governmental activities and each major fund of the American Montessori Academy as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the American Montessori Academy as of June 30, 2007 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2007, on our consideration of American Montessori Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting

report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through xii and 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

DARNELL & MEYERING, P.C.

  
September 27, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of American Montessori Academy's (academy) annual financial report presents our discussion and analysis of the public school academy's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

### Financial Highlights

- The academy's net assets are \$120,334.
- Blended enrollment used for state aid purposes was 272.70 in June 2007.

### Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the academy.

The first two statements are academy-wide financial statements that provide both short-term and long-term information about the academy's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the academy, reporting the academy's operations in more detail than the academy-wide statements.

The governmental funds statements tell how basic services like regular education were financed in the short-term as well as what remains for future spending.

Fiduciary funds statements provide information about the financial relationships in which the academy acts solely as an agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-1 Organization of American Montessori Academy Annual Financial Report

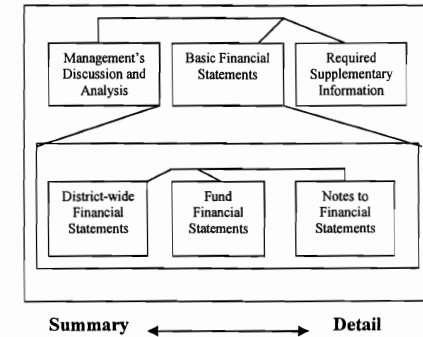


Figure A-2 summarized the major features of the academy's financial statements, including the portion of the academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**Figure A – 2 Major Features of the Academy-Wide and Fund Financial Statements**

	Academy-wide statements	Fund Financial Statements	
		Governmental funds	Fiduciary funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary	Instances in which the academy administers resources on behalf of someone else, such as student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the academy's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

#### Academy-wide statements

The Academy-wide statements report information about the academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the academy's net assets and how they have changed. Net assets – the difference between the academy's assets and liabilities, are one way to measure the academy's financial health or position.

- Over time, increases or decreases in the academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the academy, you need to consider additional non-financial factors such as changes in the academy's enrollment, the condition of school buildings and other facilities, and the academy's ability to be competitive with other public school academies and area school districts.

#### Fund financial statements

The fund financial statements provide more detailed information about the academy's funds, focusing on its more significant or "major" funds – not the academy as a whole. Funds are accounting devices the academy uses to keep track of specific sources of funding and spending on particular programs:

Governmental activities – The academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The academy has two kinds of funds:

Governmental fund – Most of the academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the academy's programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Fiduciary funds – The academy is the fiduciary for assets that belong to others, such as the student activities funds. The academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and used by those to whom the assets belong. We exclude these activities from the academy-wide financial statements because the academy cannot use these assets to finance its operations.

### Financial analysis of the academy as a whole

Net assets - the academy's combined net assets were \$120,334 on June 30, 2007. See Figure A – 3.

The total revenues were \$2,418,861. State aid foundation allowance included in revenue from state sources accounts for 83 percent of the academy's revenue.

The total cost of instruction was \$952,533. The total cost of support services were \$1,260,376.

The academy's stable financial position is the product of many factors. The primary reasons are the number of students enrolled and the management of expenses to bring them into line with the academy's revenue.

### Academy governmental activities

There was a state aid increase of \$210 per pupil during the 2006-2007 school year. The school board oversaw the academy's financial activities while the administration carefully managed expenses.

<b>Figure A-3 American Montessori Academy</b>		
	<b>2007</b>	<b>2006</b>
Current assets	\$ 439,204	\$ 878,138
Capital assets	252,785	233,345
Total assets	691,989	1,111,483
Current liabilities	424,681	836,723
Noncurrent liabilities	146,974	214,291
Total liabilities	571,655	1,051,014
Net assets		
Invested in capital assets, net of related debt	188,376	152,642
Unrestricted	(68,042)	(92,173)
Total net assets	\$ 120,334	\$ 60,469

**Figure A-4  
Changes in American Montessori Academy's Net Assets**

	<b>2007</b>	<b>2006</b>
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 317,687	\$ 156,444
General revenues:		
State aid - unrestricted	2,013,355	1,347,462
Investment	10,622	8,230
Charges for services	57,635	33,613
Other	19,562	24,079
Total revenues	2,418,861	1,569,828
Expenses:		
Instruction	952,533	504,843
Support services	1,260,376	842,613
Community services	24,139	12,438
Interest	76,972	70,505
Unallocated depreciation	44,976	44,976
Total expenses	2,358,996	1,475,375
Change in net assets	\$ 59,865	\$ 94,453

### Financial analysis of the academy's funds

The stable financial performance of the academy as a whole is reflected in its governmental fund. As the academy completed the year, its governmental funds (general) reported a fund balance of \$83,523.

### General fund budgetary highlights

Over the course of the year, the academy revised the annual operating budget two times. These budget amendments fall into several categories:

Changes were made in the second and fourth quarters to account for student enrollment counts, federal funds, and changes in assumptions (e.g. staffing changes and capital outlay) since the original budget was adopted.

While the academy's final budget for the general fund anticipated expenditures would exceed revenues by \$62,980, the actual results for the year showed expenditures over revenues of \$20,984.

## Capital asset and debt administration

### Capital assets

By the end of the year ended June 30, 2007, the academy had invested \$252,785 in capital assets consisting primarily of computers, software, furniture and fixtures net of accumulated depreciation. More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$56,398.

The Academy's capital assets are as follows:

<b>Figure A-5</b>				
<b>American Montessori Academy's Capital Assets</b>				
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>2007 Net Book Value</b>	<b>2006 Net Book Value</b>
Computer equipment	\$ 53,020	\$ 30,045	\$ 22,975	\$ 33,579
Furniture and fixtures	319,419	105,986	213,433	180,318
Building improvements	21,495	5,118	16,377	19,448
Total	<u>\$ 393,934</u>	<u>\$ 141,149</u>	<u>\$ 252,785</u>	<u>\$ 233,345</u>

### Facilities lease obligation

The academy paid \$400,000 for facilities lease obligations during the 2007 school year.

### Long-term debt

At year end the Academy had \$214,291 in installment obligations. (More detailed information about the Academy's long-term liabilities is presented in Note 6 to the Financial Statements).

<b>Figure A-6</b>		
<b>American Montessori Academy's Outstanding Long-term Debt</b>		
	<b>2007</b>	<b>2006</b>
Installment Loans	\$ 214,291	\$ 275,228
Total	<u>\$ 214,291</u>	<u>\$ 275,228</u>

### Factors bearing on the academy's future

At the time these financial statements were prepared and audited, the academy was not aware of existing circumstances that could significantly affect its financial health in the future.

### Contacting the academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the academy's finances and to demonstrate the academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the academy's office at 14800 Middlebelt Road, Livonia, MI 48154.



**American Montessori Academy  
Statement of Net Assets  
June 30, 2007**

Assets	Governmental Activities
<b>Current assets:</b>	
Cash and equivalents	\$ 3,088
Receivables:	
Other governmental units	429,091
Deposits	3,600
Prepaid expenses	<u>3,425</u>
<b>Total current assets</b>	<u>439,204</u>
<b>Noncurrent assets:</b>	
Capital assets	393,934
Less accumulated depreciation	<u>(141,149)</u>
<b>Total noncurrent assets</b>	<u>252,785</u>
<b>Total assets</b>	<u><u>\$ 691,989</u></u>
<b>Liabilities And Net Assets</b>	
<b>Current liabilities:</b>	
Accounts payable	\$ 5,577
Accrued oversight fees	11,095
Accrued interest	1,683
Due to student activities	11,736
Revenue anticipation note	327,273
Current portion of long term obligations	<u>67,317</u>
<b>Total current liabilities</b>	<u>424,681</u>
<b>Noncurrent liabilities:</b>	
Noncurrent portion of long term obligations	<u>146,974</u>
<b>Total noncurrent liabilities</b>	<u>146,974</u>
<b>Total liabilities</b>	<u>571,655</u>
<b>Net assets:</b>	
Invested in capital assets - net of related debt	188,376
Unrestricted	<u>(68,042)</u>
<b>Total net assets</b>	<u>120,334</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 691,989</u></u>

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See notes to financial statements.

**American Montessori Academy**  
**Statement of Activities**  
**Year Ended June 30, 2007**

Functions/programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants & Contributions	Net (expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 952,533	\$ -	\$ 317,687	\$ (634,846)
Support services	1,260,376	-	-	(1,260,376)
Community services	24,139	57,635	-	33,496
Interest expense	76,972	-	-	(76,972)
Unallocated depreciation	44,976	-	-	(44,976)
Total governmental activities	<u>\$ 2,358,996</u>	<u>\$ 57,635</u>	<u>\$ 317,687</u>	<u>(1,983,674)</u>
General revenues:				
State of Michigan school aid unrestricted				2,013,355
Investment revenue				10,622
Miscellaneous				19,562
Total general revenues				<u>2,043,539</u>
Change in net assets				59,865
Net assets, beginning of year				<u>60,469</u>
Net assets, end of year				<u>\$ 120,334</u>

See notes to financial statements.

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**American Montessori Academy**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2007**

	General Fund
<b>Assets</b>	
<b>Assets:</b>	
Cash and equivalents	\$ 3,088
Receivables:	
Other governmental units	429,091
Deposits	3,600
Prepaid expenditures	3,425
Total assets	<u>\$ 439,204</u>
<b>Liabilities and Fund Balances</b>	
<b>Liabilities:</b>	
Accounts payable	\$ 5,577
Accrued oversight fees	11,095
Due to student activities	11,736
Revenue anticipation note	327,273
Total liabilities	<u>355,681</u>
<b>Fund balance:</b>	
Reserved for prepaid expenditures	3,425
Reserved for deposits	3,600
Unreserved, undesignated	76,498
Total fund balance	<u>83,523</u>
Total liabilities and fund balance	<u>\$ 439,204</u>

<b>Total governmental fund balance</b>	<b>\$ 83,523</b>
--	------------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are financial resources and are not reported in the funds

The cost of capital assets is	\$ 393,934	
Accumulated depreciation is	<u>(141,149)</u>	252,785

Long term liabilities are not due and payable in the current period and are not reported in the funds

Long term obligations	(214,291)
-----------------------	-----------

Accrued interest payable is not included as a liability in governmental funds

<u>(1,683)</u>
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<b>Net assets of governmental activities</b>	<b><u>\$ 120,334</u></b>
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See notes to financial statements.

3

**American Montessori Academy**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Fund**  
**Year Ended June 30, 2007**

	<u>General Fund</u>
<b>Revenues:</b>	
Local sources	\$ 92,022
State sources	2,023,399
Federal sources	<u>303,440</u>
Total revenues	<u>2,418,861</u>
<b>Expenditures:</b>	
Current:	
Instruction:	
Basic programs	922,612
Added needs	<u>72,622</u>
Total instruction	<u>995,234</u>
Support services:	
Pupil	72,211
Instructional staff	49,030
General administration	349,890
School administration	219,764
Business	139,369
Operations/maintenance	524,401
Central	<u>4,870</u>
Total support services	<u>1,359,535</u>

**American Montessori Academy**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Fund**  
**Year Ended June 30, 2007**

	General Fund
<b>Expenditures (concluded):</b>	
Current (concluded):	
Community service	24,139
Debt service:	
Principal retirements	60,937
Total expenditures	2,439,845
<b>Net change in fund balance</b>	(20,984)
<b>Fund balance:</b>	
Beginning of year	104,507
End of year	\$ 83,523

See notes to financial statements.

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**American Montessori Academy**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures and Changes in Fund Balance of Governmental Fund**  
**to the Statement of Activities**  
**Year Ended June 30, 2007**

<b>Net change in fund balance total governmental funds</b>	<b>\$ (20,984)</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures.	
In the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Capital outlay	75,838
Depreciation expense	(56,398)
Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).	60,937
Accrued interest is recorded in the statement of activities when incurred; it is not recorded in the governmental funds until it is paid.	
Accrued interest payable beginning of the year	2,155
Accrued interest payable end of the year	(1,683)
<b>Change in net assets of governmental activities</b>	<b>\$ 59,865</b>

See notes to financial statements.

**American Montessori Academy**  
**Statement of Fiduciary Net Assets**  
**June 30, 2007**

**Assets:**

Due from General Fund  
**Total assets**

Agency Fund  
Student  
Activities

\$ 11,736  
\$ 11,736

**Liabilities:**

Due to Student Groups  
**Total liabilities**

\$ 11,736  
\$ 11,736

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See notes to financial statements.

**AMERICAN MONTESSORI ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2007**

**Note 1. Summary of Significant Accounting Policies**

The accounting policies of American Montessori Academy conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy.

**A. Reporting Entity**

American Montessori Academy is a public school academy. A public school academy is a Michigan Public School System under Public Act No. 362 of 1993 and is subject to the leadership and general supervision of the State Board of Education. Bay Mills Community College is the authorizing body of the Academy and has contracted with the Academy confirming the status of the public school academy. American Montessori Academy's school board is approved by the authorizing body and is authorized to manage the property and affairs of the Academy. The Academy does not include any component unit within its financial statements as defined in Governmental Accounting Standards Board Statements Nos. 14 and 39.

**B. Charter-Wide and Fund Financial Statements**

**Measurement focus, basis of accounting, and financial statement presentation**

**CHARTER-WIDE STATEMENTS**

The charter-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The charter-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school Academy and other unrestricted items are not included as program revenues but instead as *general revenues*.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

In the charter-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. At June 30, 2007, the Academy had no restricted net assets.

The Academy first utilizes restricted resources to finance qualifying activities.

The charter-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues).

The Academy does not allocate indirect costs.

This charter-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

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Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The charter-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the charter-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

**FUND BASED STATEMENTS**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The Academy reports the following major fund:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

*Fiduciary funds* account for assets held by the Academy as an agent on behalf of others. Fiduciary funds are not included in the charter-wide statements. The Academy has one fiduciary fund called an agency fund which primarily accounts for student activities.

**D. Assets, Liabilities and Net Assets or Equity**

**1. Deposits and Investments**

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosure*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. The Academy had no investments at June 30<sup>th</sup>.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. Banks, and mutual funds composed of investments as outlined above.

2. Receivables

The State of Michigan utilizes a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to charter schools based on information supplied by the schools. For the year June 30, 2007 the foundation allowance was based on the pupil membership counts taken in September of 2006 and February of 2006.

B-13 The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October, 2006 to August, 2007. Thus, the unpaid portion at June 30 is reported as state aid receivable.

The Academy also receives revenue from the State to administer certain categorical education programs. State rules required that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the charter-wide and fund financial statements.

4. Fund Equity Balance

The unreserved fund equity balances for governmental funds represent the amount available for budgeting future operations. The reserved fund equity balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources". The designated fund equity balances for governmental funds represent tentative plans for future use of financial resources.

5. Capital Assets

Capital assets, include property, plant, and equipment are reported in the applicable governmental activities column in the charter-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased of constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure type assets.

Depreciation on all assets is provided using the straight-line method over the following useful lives:

Computers	5 years
Furniture and equipment	7-10 years
Building and improvement	7 years

6. Use of Estimates

The process of preparing general purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

**Note 2. Stewardship, Compliance and Accountability**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for capital outlay which is reported in the function or activity it services. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at fiscal year end.

The Academy maintains a formalized encumbrance accounting system.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. The Management Organization submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances – budget and actual – general fund.
- B. Public hearings are conducted to obtain local public comments.
- C. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances in the budgetary comparison schedule – general fund.
- D. The management company is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- E. Formal budgetary integration is employed as a management control device during the year for the general fund.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

F. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30<sup>th</sup>.

G. The Academy did not have significant expenditure budget variances.

**Note 3. Deposits**

Cash is held in the name of the school in the general fund. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the school in relation to deposits in excess of insured amounts. These assessments are performed by the Academy at least annually. As of June 30, 2007, the Academy's bank balance of \$4,883 was not exposed to custodial credit risk because it was covered by federal depository insurance.

**Note 4. Receivables**

Receivables as of year-end were as follows:

	General Fund
Receivables:	
State aid	\$ 369,837
Federal	59,254
Net total receivables	<u>\$ 429,091</u>

All receivables were deemed collectible as of June 30, 2007.



AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

**Note 5. Capital Assets**

Capital asset activity for the Academy for the current fiscal year was as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets being depreciated:				
Computers	\$ 53,020	\$ -	\$ -	\$ 53,020
Furniture & Equipment	243,581	75,838	-	319,419
Building Improvements	21,495	-	-	21,495
Subtotal	318,096	75,838	-	393,934
Less: Accumulated depreciation for:				
Computers	19,441	10,604	-	30,045
Furniture & Equipment	63,263	42,723	-	105,986
Building Improvements	2,047	3,071	-	5,118
Subtotal	84,751	56,398	-	141,149
Capital assets, net of depreciation	<u>\$ 233,345</u>	<u>\$ 19,440</u>	<u>\$ -</u>	<u>\$ 252,785</u>

Depreciation for the fiscal year ended June 30, 2007 amounted to \$56,398. Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:

Instruction	\$ 5,426
Support	5,996
Unallocated	<u>44,976</u>
Total	<u>\$ 56,398</u>

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

**Note 6. Long-Term Debt**

The following is a summary of long-term obligations of the Academy for the year ended June 30, 2007:

	Balance 7/1/2006	Additions	Reductions	Balance 6/30/2007	Due Within One Year
Capital Leases					
David McHugh	\$ 125,660	\$ -	\$ 26,889	\$ 98,771	\$ 29,705
T. Papatheodoropoulos	37,000	-	11,128	25,872	12,293
Daniel Webster	69,272	-	14,104	55,168	15,581
Ronald Baker	43,296	-	8,816	34,480	9,738
Total	<u>\$ 275,228</u>	<u>\$ -</u>	<u>\$ 60,937</u>	<u>\$ 214,291</u>	<u>\$ 67,317</u>

Annual debt service requirements to maturity for the above long-term obligations are as follows:

Fiscal Year Ending	Principal	Interest	Total
2008	\$ 67,317	\$ 18,400	\$ 85,717
2009	74,366	11,350	85,716
2010	67,152	4,238	71,390
2011	5,456	68	5,524
Total	<u>\$ 214,291</u>	<u>\$ 34,056</u>	<u>\$ 248,347</u>

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

**Governmental Activities:**

Long-term obligations currently outstanding are as follows:

Installment loan due in monthly installments of \$3,187 beginning July 1, 2005, through June 1, 2010. The interest rate is 10% per annum.	\$98,771
Installment loan due in monthly installments of \$1,194 beginning July 1, 2006, through June 1, 2009. The interest rate is 10% per annum.	25,872
Installment loan due in monthly installments of \$1,700 beginning September 1, 2005, through August 1, 2010. The interest rate is 10% per annum.	55,168
Installment loan due in monthly installments of \$1,062 beginning September 1, 2005, through August 1, 2010. The interest rate is 10% per annum.	<u>34,480</u>
	<u>\$214,291</u>

**Note 7. Operating Lease Agreement**

B-16 The Academy leases classroom facilities under a non-cancelable operating lease agreement. Lease expense for year ended June 30, 2007 was \$400,000. The term of the lease is eight years beginning July 1, 2004 through June 30, 2012. The lease covers property located at 14800 Middlebelt Road, Livonia, Michigan. The lease agreement contains a purchase option effective April 1, 2008 through March 31, 2012. This purchase option allows the Academy to obtain the real estate for the market value on the option date. The Basic Rent shall increase annually by the lesser of: 2% of the Basic Rent from the preceding year or the percentage increase in the State School Aid basic foundation allowance as provided by the State of Michigan from the previous school fiscal year.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

The future minimum rental payments for the balance of the lease are as follows:  
(Computed assuming the increase in rent is 2% over the prior school fiscal year)

School Fiscal Year Ending	Annual Rent
2008	\$ 408,000
2009	416,160
2010	424,483
2011	432,973
2012	441,632
	<u>\$ 2,123,248</u>

**Note 8. Revenue Anticipation Note**

The Academy had an outstanding revenue anticipated note of \$500,000 with an interest rate of 7.851% to assist with operational cash flows prior to the receipt of state aid payments. The note is secured by funding provided from the State of Michigan's foundation grant revenue. The balance at June 30, 2007 was \$327,273 with a maturity date of August 31, 2007. The following is a summary of revenue anticipation notes of the Academy for the year ended June 30, 2007:

	Balance 7/1/2006	Additions	Reductions	Balance 6/30/2007
2005-2006	\$ 141,909	\$ -	\$ 141,909	\$ -
2006-2007	595,227	-	595,227	-
2007-2008	<u>-</u>	<u>500,000</u>	<u>172,727</u>	<u>327,273</u>
Total	<u>\$ 737,136</u>	<u>\$ 500,000</u>	<u>\$ 909,863</u>	<u>\$ 327,273</u>

**Note 9. Purchased Services**

The Academy leases all employee services from MJ Management Services, Inc. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of this management company.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

**Note 10. Management Company**

Helicon Associates, Inc. provides management services under a Consultancy Services Agreement that commenced on July 1, 2004 and shall expire on June 30, 2007. The management company's fee is 11% of state aid which the Academy receives. All subsequent years are based on increases of the average costs of living rate in the Detroit, Michigan area. During the year ended June 30, 2007, the Academy incurred expense of \$221,455 for management services.

**Note 11. Oversight Fees**

The Academy pays an administrative oversight fee of 3% of its state school aid and proposal A obligation payments to the Bay Mills Community College, as set forth by contract, to reimburse the University for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2007, the Academy incurred expense of approximately \$60,702 for oversight fees.

**Note 12. Risk Management**

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The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Academy continues to carry commercial insurance for other risks of loss.

REQUIRED SUPPLEMENTARY INFORMATION

**American Montessori Academy**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with final budget Favorable (Unfavorable)</u>
<b>Revenues:</b>				
Local sources	\$ 60,000	\$ 91,536	\$ 92,022	\$ 486
State sources	2,040,386	2,023,401	2,023,399	(2)
Federal sources	266,127	303,374	303,440	66
<b>Total revenues</b>	<u>2,366,513</u>	<u>2,418,311</u>	<u>2,418,861</u>	<u>550</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Basic programs	908,558	935,119	922,612	12,507
Added needs	54,764	74,055	72,622	1,433
<b>Total instruction</b>	<u>963,322</u>	<u>1,009,174</u>	<u>995,234</u>	<u>13,940</u>
<b>Support services:</b>				
Pupil	70,000	75,500	72,211	3,289
Instructional staff	54,828	50,921	49,030	1,891
General administration	315,414	357,657	349,890	7,767
School administration	207,972	222,890	219,764	3,126
Business	109,875	141,630	139,369	2,261
Operations/maintenance	501,250	531,725	524,401	7,324
Central	7,000	6,000	4,870	1,130
<b>Total support services</b>	<u>1,266,339</u>	<u>1,386,323</u>	<u>1,359,535</u>	<u>26,788</u>

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with final budget Favorable (Unfavorable)</u>
<b>Expenditures (concluded):</b>				
Community service	24,596	24,857	24,139	718
Debt Service:				
Principal Retirements	61,057	60,937	60,937	-
<b>Total expenditures</b>	<u>2,315,314</u>	<u>2,481,291</u>	<u>2,439,845</u>	<u>41,446</u>
<b>Net change in fund balance</b>	51,199	(62,980)	(20,984)	41,996
<b>Fund balance:</b>				
Beginning of year	104,507	104,507	104,507	-
End of year	<u>\$ 155,706</u>	<u>\$ 41,527</u>	<u>\$ 83,523</u>	<u>\$ 41,996</u>

## DARNELL & MEYERING, P.C.

*Certified Public Accountants*

CLINTON MEYERING, C.P.A.  
RANDALL H. DARNELL, C.P.A.  
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MEMBERS  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

Board of Directors  
American Montessori Academy  
14800 Middlebelt Road  
Livonia, Michigan 48154

We have audited the financial statements of American Montessori Academy, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered American Montessori Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the American Montessori Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control

deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

#### 2007 – 1 Finding:

The Academy has hired a management company to provide bookkeeping and accounting services which includes cash disbursements and the maintaining and reconciling of all bank accounts. In our assessment of internal controls, we found there was not adequate segregation of duties in the accounts payable process among the two persons involved. There is no independent verification and approval of the source documents to support expenditures charged to the Academy

#### Response:

The Academy has retained a new management company for the 2007/2008 school year and will now be under new internal control procedures.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

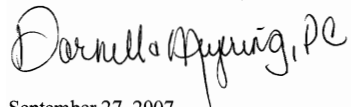
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether American Montessori Academy's statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These

certain matters are reported to management of American Montessori Academy in a separate letter dated September 27, 2007.

This report is intended solely for the information and use of management, others within the Academy, the Michigan Department of Education, Michigan Department of Treasury and ISD and is not intended to be and should not be used by anyone other than these specified parties.

DARNELL & MEYERING, P.C.

A handwritten signature in black ink that reads "Darnell & Meyering, P.C." in a cursive, stylized font.

September 27, 2007

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**American Montessorri Academy  
Financial Report  
For the Fiscal Year Ended  
June 30, 2006**

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**Independent Auditors' Report**

Board of Directors  
American Montessori Academy  
14800 Middlebelt Road  
Livonia, MI 48154

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the American Montessori Academy as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the American Montessori Academy as of June 30, 2006 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2006, on our consideration of American Montessori Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that

report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through xii and 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

DARNELL & MEYERING, P.C.

September 1, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of American Montessori Academy's (academy) annual financial report presents our discussion and analysis of the public school academy's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

### Financial Highlights

- The academy's net assets increased by \$94,453.
- Blended enrollment used for state aid purposes was 189.41 in June 2006.
- Revenues increases by 32 percent.
- The academy maintained its outstanding liabilities.

### Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the academy.

The first two statements are academy-wide financial statements that provide both short-term and long-term information about the academy's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the academy, reporting the academy's operations in more detail than the academy-wide statements.

The governmental funds statements tell how basic services like regular education were financed in the short-term as well as what remains for future spending.

Fiduciary funds statements provide information about the financial relationships in which the academy acts solely as an agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.



Figure A-1 Organization of American Montessori Academy Annual Financial Report

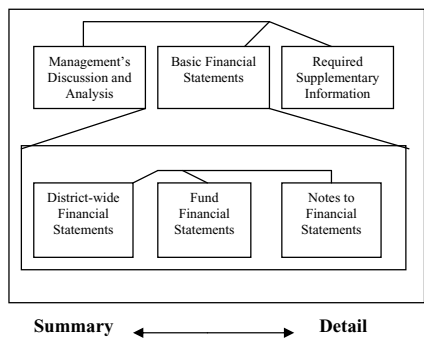


Figure A-2 summarized the major features of the academy’s financial statements, including the portion of the academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A – 2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Fund Financial Statements	
		Governmental funds	Fiduciary funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary	Instances in which the academy administers resources on behalf of someone else, such as student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the academy’s funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

### Academy-wide statements

The Academy-wide statements report information about the academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the academy's net assets and how they have changed. Net assets – the difference between the academy's assets and liabilities, are one way to measure the academy's financial health or position.

- Over time, increases or decreases in the academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the academy, you need to consider additional non-financial factors such as changes in the academy's enrollment, the condition of school buildings and other facilities, and the academy's ability to be competitive with other public school academies and area school districts.

### Fund financial statements

The fund financial statements provide more detailed information about the academy's funds, focusing on its more significant or "major" funds – not the academy as a whole. Funds are accounting devices the academy uses to keep track of specific sources of funding and spending on particular programs:

Governmental activities – The academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The academy has two kinds of funds:

Governmental fund – Most of the academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the academy's programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Fiduciary funds – The academy is the fiduciary for assets that belong to others, such as the student activities funds. The academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and used by those to whom the assets belong. We exclude these activities from the academy-wide financial statements because the academy cannot use these assets to finance its operations.

### Financial analysis of the academy as a whole

Net assets - the academy's combined net assets were \$60,469 on June 30, 2006. See Figure A – 3.

The total revenues were \$1,569,828. State aid foundation allowance included in revenue from state sources accounts for 86 percent of the academy's revenue.

The total cost of instruction was \$504,843. The total cost of support services were \$842,613.

The academy's stable financial position is the product of many factors. The primary reasons are the number of students enrolled and the management of expenses to bring them into line with the academy's revenue.

### Academy governmental activities

There was a state aid increase of \$175 per pupil during the 2005-2006 school year. The school board oversaw the academy's financial activities while the administration carefully managed expenses and reduced support service expenses.

**Figure A-3**  
**American Montessori Academy**

	2006	2005
Current assets	\$ 878,138	\$ 738,313
Capital assets	<u>233,345</u>	<u>256,144</u>
Total assets	<u>1,111,483</u>	<u>994,457</u>
Current liabilities	836,723	1,028,441
Noncurrent liabilities	<u>214,291</u>	<u>-</u>
Total liabilities	<u>1,051,014</u>	<u>1,028,441</u>
Net assets		
Invested in capital assets, net of related debt	152,642	(37,480)
Unrestricted	<u>(92,173)</u>	<u>3,496</u>
Total net assets	<u>\$ 60,469</u>	<u>\$ (33,984)</u>

<b>Figure A-4</b> <b>Changes in American Montessori Academy's Net Assets</b>		
	<u>2006</u>	<u>2005</u>
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 156,444	\$ 13,027
General revenues:		
State aid - unrestricted	1,347,462	1,158,500
Investment	8,230	1,036
Charges for services	33,613	19,125
Other	<u>24,079</u>	<u>-</u>
Total revenues	<u>1,569,828</u>	<u>1,191,688</u>
Expenses:		
Instruction	504,843	450,649
Support services	842,613	706,539
Community services	12,438	7,659
Interest	70,505	23,345
Unallocated depreciation	<u>44,976</u>	<u>37,480</u>
Total expenses	<u>1,475,375</u>	<u>1,225,672</u>
Change in net assets	<u>\$ 94,453</u>	<u>\$ (33,984)</u>

#### Financial analysis of the academy's funds

The stable financial performance of the academy as a whole is reflected in its governmental fund. As the academy completed the year, its governmental funds (general) reported a fund balance of \$104,507.

#### General fund budgetary highlights

Over the course of the year, the academy revised the annual operating budget two times. These budget amendments fall into several categories:

Changes were made in the second and fourth quarters to account for student enrollment counts, federal funds, and changes in assumptions (e.g. staffing changes and capital outlay) since the original budget was adopted.

While the academy's final budget for the general fund anticipated revenues would exceed expenditures by \$20,842, the actual results for the year showed revenues over expenditures of \$77,235.

#### Capital asset and debt administration

##### Capital assets

By the end of the year ended June 30, 2006, the academy had invested \$233,345 in capital assets consisting primarily of computers, software, furniture and fixtures net of accumulated depreciation. More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$47,271.

The Academy's capital assets are as follows:

<b>Figure A-5</b> <b>American Montessori Academy's Capital Assets</b>				
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>2005 Net Book Value</u>
Computer equipment	\$ 53,020	\$ 19,441	\$ 33,579	\$ 44,183
Furniture and fixtures	243,581	63,263	180,318	211,961
Building improvements	<u>21,495</u>	<u>2,047</u>	<u>19,448</u>	<u>-</u>
Total	<u>\$ 318,096</u>	<u>\$ 84,751</u>	<u>\$ 233,345</u>	<u>\$ 256,144</u>

##### Facilities lease obligation

The academy paid \$250,000 for facilities lease obligations during the 2006 school year.

##### Long-term debt

At year end the Academy had \$275,228 in installment obligations. (More detailed information about the Academy's long-term liabilities is presented in Note 6 to the Financial Statements).

<b>Figure A-6</b> <b>American Montessori Academy's Outstanding Long-term Debt</b>		
	<u>2006</u>	<u>2005</u>
Installment Loans	<u>\$ 275,228</u>	<u>\$ 317,400</u>
Total	<u>\$ 275,228</u>	<u>\$ 317,400</u>

### Factors bearing on the academy's future

At the time these financial statements were prepared and audited, the academy was not aware of existing circumstances that could significantly affect its financial health in the future.

### Contacting the academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the academy's finances and to demonstrate the academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the academy's office at 2525 West Jefferson, Trenton, MI 48183.

### American Montessori Academy Statement of Net Assets June 30, 2006

	Assets	Governmental Activities
<b>Current assets:</b>		
Cash and equivalents		\$ 578,475
Receivables:		
Accounts receivable		500
Interest receivable		1,835
Other governmental units		272,123
Prepaid expenses and security deposits		25,205
<b>Total current assets</b>		<u>878,138</u>
<b>Noncurrent assets:</b>		
Capital assets		318,096
Less accumulated depreciation		(84,751)
<b>Total noncurrent assets</b>		<u>233,345</u>
<b>Total assets</b>		<u><u>\$ 1,111,483</u></u>
<b>Liabilities And Net Assets</b>		
<b>Current liabilities:</b>		
Accounts payable		\$ 10,731
Accrued interest		6,140
Due to student activities		21,779
Revenue anticipation note		737,136
Current portion of long term obligations		60,937
<b>Total current liabilities</b>		<u>836,723</u>
<b>Noncurrent liabilities:</b>		
Noncurrent portion of long term obligations		214,291
<b>Total noncurrent liabilities</b>		<u>214,291</u>
<b>Total liabilities</b>		<u>1,051,014</u>
<b>Net assets:</b>		
Invested in capital assets - net of related debt		152,642
Unrestricted		(92,173)
<b>Total net assets</b>		<u>60,469</u>
<b>Total liabilities and net assets</b>		<u><u>\$ 1,111,483</u></u>

**American Montessori Academy**  
**Statement of Activities**  
**Year Ended June 30, 2006**

Functions/programs	Expenses	Program Revenues		Governmental
		Charges for	Operating Grants	Activities
		Services	& Contributions	Net (expense)
				Revenue and
				Changes in
				Net Assets
Governmental activities:				
Instruction	\$ 504,843	\$ -	\$ 156,444	\$ (348,399)
Support services	842,613	-	-	(842,613)
Community services	12,438	33,613	-	21,175
Interest expense	70,505	-	-	(70,505)
Unallocated depreciation	44,976	-	-	(44,976)
Total governmental activities	<u>\$ 1,475,375</u>	<u>\$ 33,613</u>	<u>\$ 156,444</u>	<u>(1,285,318)</u>
General revenues:				
State of Michigan school aid unrestricted				1,347,462
Investment revenue				8,230
Miscellaneous				24,079
Total general revenues				<u>1,379,771</u>
Change in net assets				94,453
Net assets, beginning of year				<u>(33,984)</u>
Net assets, end of year				<u>\$ 60,469</u>

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**American Montessori Academy**  
**Balance Sheet**  
**Governmental Fund**  
**Year Ended June 30, 2006**

	General Fund
<b>Assets</b>	
<b>Assets:</b>	
Cash and equivalents	\$ 578,475
Receivables	
Accounts receivable	500
Interest receivable	1,835
Other governmental units	272,123
Prepaid expenses	<u>25,205</u>
<b>Total assets</b>	<u><u>\$ 878,138</u></u>
 <b>Liabilities and Fund Balance</b>	
<b>Liabilities:</b>	
Accounts payable	\$ 10,731
Accrued interest	3,985
Due to other funds	21,779
Revenue anticipation note	<u>737,136</u>
<b>Total liabilities</b>	<u>773,631</u>
 <b>Fund balance:</b>	
Reserved for prepaid expenses	25,205
Unreserved, undesignated	<u>79,302</u>
<b>Total fund balance</b>	<u>104,507</u>

<b>Total liabilities and fund balance</b>	<u><u>\$ 878,138</u></u>
 <b>Total governmental fund balance</b>	 <u>\$ 104,507</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are financial resources and are not reported in the funds	
The cost of capital assets is	\$ 318,096
Accumulated depreciation is	<u>(84,751)</u>
	233,345
 Long term liabilities are not due and payable in the current period and are not reported in the funds	
Long term obligations	(275,228)
Accrued interest payable is not included as a liability in governmental funds	(2,155)
 <b>Net assets of governmental activities</b>	 <u><u>\$ 60,469</u></u>

	General Fund
<b>Revenues:</b>	
Local sources:	
Fees, private sources	\$ 33,613
Investment income	8,230
Other	<u>24,079</u>
Total local revenues	65,922
State sources	1,390,688
Federal sources	<u>113,218</u>
Total revenues	<u>1,569,828</u>
<b>Expenditures:</b>	
Current:	
Instruction	
Basic programs	482,287
Added needs	<u>24,549</u>
Total instruction	<u>506,836</u>
	General Fund
<b>Expenditures (concluded):</b>	
Current (concluded)	
Support services:	
Pupil	37,652
Instructional staff	64,659
General administration	223,054
School administration	140,839
Business and fiscal services	121,998
Operations/maintenance	337,767
Central	<u>5,178</u>
Total Support Services	<u>931,147</u>
Community Service	12,438
Debt service:	
Principal retirements	<u>209,172</u>
Total expenditures	<u>1,659,593</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(89,765)</u>
<b>Other financing sources (uses):</b>	
Lease proceeds	<u>167,000</u>
Total other financing sources (uses):	<u>167,000</u>
<b>Net change in fund balance</b>	77,235
<b>Fund balance:</b>	
Beginning of year	<u>27,272</u>
End of year	\$ 104,507

**American Montessori Academy**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures and Changes in Fund Balances of Governmental Fund**  
**To the Statement of Activities**  
**Year Ended June 30, 2006**

**Net change in fund balances total governmental fund** \$ 77,235

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Capital outlay	24,472
Depreciation expense	(47,271)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).	209,172
---	---------

Proceeds from a capital lease is an other financing source in the governmental funds, but it is not in the statement of activities. It is shown as debt on the statement of net assets.	(167,000)
---	-----------

Accrued interest is recorded in the statement of activities when incurred; it is not recorded in the governmental funds until it is paid.

Accrued interest payable end of the year	(2,155)
--	---------

<b>Change in net assets of governmental activities</b>	<b>\$ 94,453</b>
--	------------------

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**American Montessori Academy**  
**Statement of Fiduciary Net Assets**  
**June 30, 2006**

	Agency Fund Student Activities
<b>Assets:</b>	
Due from General Fund	\$ 21,779
<b>Total assets</b>	<u>\$ 21,779</u>
<b>Liabilities:</b>	
Due to Student Groups	\$ 21,779
<b>Total liabilities</b>	<u>\$ 21,779</u>

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2006

**Note 1. Summary of Significant Accounting Policies**

The accounting policies of American Montessori Academy conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy.

**A. Reporting Entity**

American Montessori Academy is a public school academy. A public school academy is a Michigan Public School System under Public Act No. 362 of 1993 and is subject to the leadership and general supervision of the State Board of Education. Bay Mills Community College is the authorizing body of the Academy and has contracted with the Academy confirming the status of the public school academy. American Montessori Academy's school board is approved by the authorizing body and is authorized to manage the property and affairs of the Academy. The Academy does not include any component unit within its financial statements as defined in Governmental Accounting Standards Board Statements Nos. 14 and 39.

**B. Charter-Wide and Fund Financial Statements**

**Measurement focus, basis of accounting, and financial statement presentation**

**CHARTER-WIDE STATEMENTS**

The charter-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The charter-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school Academy and other unrestricted items are not included as program revenues but instead as *general revenues*.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

In the charter-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Academy first utilizes restricted resources to finance qualifying activities.

The charter-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues).

The Academy does not allocate indirect costs.

This charter-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

B-32 Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The charter-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the charter-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

**FUND BASED STATEMENTS**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The Academy reports the following major fund:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

*Fiduciary funds* account for assets held by the Academy as an agent on behalf of others. Fiduciary funds are not included in the charter-wide statements. The Academy has one fiduciary fund called an agency fund which primarily accounts for student activities.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosure*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. The Academy had no investments at June 30<sup>th</sup>.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. Banks, and mutual funds composed of investments as outlined above.

2. Receivables

The State of Michigan utilizes a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to charter schools based on information supplied by the schools. For the year June 30, 2006 the foundation allowance was based on the pupil membership counts taken in September of 2005 and February of 2005.

B-33

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October, 2005 to August, 2006. Thus, the unpaid portion at June 30 is reported as state aid receivable.

The Academy also receives revenue from the State to administer certain categorical education programs. State rules required that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the charter-wide and fund financial statements.

4. Fund Equity Balance

The unreserved fund equity balances for governmental funds represent the amount available for budgeting future operations. The reserved fund equity balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources". The designated fund equity balances for governmental funds represent tentative plans for future use of financial resources.

5. Capital Assets

Capital assets, include property, plant, and equipment are reported in the applicable governmental activities column in the charter-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure type assets.

Depreciation on all assets is provided using the straight-line method over the following useful lives:

Computers	5 years
Furniture and equipment	7 years
Building and improvement	7 years

6. Use of Estimates

The process of preparing general purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

**Note 2. Stewardship, Compliance and Accountability**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for capital outlay which is reported in the function or activity it services. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at fiscal year end.

The Academy maintains a formalized encumbrance accounting system.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. The Management Organization submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances – budget and actual – general fund.
- B. Public hearings are conducted to obtain local public comments.
- C. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances in the budgetary comparison schedule – general fund.
- D. The management company is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- E. Formal budgetary integration is employed as a management control device during the year for the general fund.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

- F. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30<sup>th</sup>.

- G. The Academy did not have significant expenditure budget variances.

**Note 3. Deposits**

Cash is held in the name of the school in the general fund. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the school in relation to deposits in excess of insured amounts. These assessments are performed by the Academy at least annually. As of June 30, 2006, \$ - 0 - of the Academy's bank balance of \$21,602 was exposed to custodial credit risk because it was covered by federal depository insurance.

**Note 4. Receivables**

Receivables as of year-end were as follows:

	<u>General</u>
Receivables:	
Accounts receivable	\$ 500
Interest receivable	1,835
State aid	251,112
Federal	<u>21,011</u>
Net total receivables	<u>\$ 274,458</u>

All receivables were deemed collectible as of June 30, 2006.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

**Note 5. Capital Assets**

Capital asset activity for the Academy for the current fiscal year was as follows:

Capital Assets Being Depreciated	Balance <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2006</u>
Computers	\$ 53,020	\$ -	\$ -	\$ 53,020
Furniture & Equipment	240,604	2,977	-	243,581
Building Improvements	-	21,495		21,495
Subtotal	293,624	24,472	-	318,096
Less: Accumulated Depreciation For:				
Computers	8,837	10,604	-	19,441
Furniture & Equipment	28,643	34,620	-	63,263
Building Improvements	-	2,047	-	2,047
Subtotal	37,480	47,271	-	84,751
Capital Assets Net of Depreciation	\$ 256,144	\$ (22,799)	\$ -	\$ 233,345

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

Depreciation for the fiscal year ended June 30, 2006 amounted to \$47,271. Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:

Instruction	\$ 181
Support Services	2,114
Unallocated	44,976
	<u>\$ 47,271</u>

**Note 6. Long-Term Debt**

The following is a summary of long-term obligations of the Academy for the year ended June 30, 2006:

	Balance <u>7/1/2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/2006</u>	Due Within <u>One Year</u>
<u>Capital Leases</u>					
David McHugh	\$150,000	\$ -	\$ 24,340	\$125,660	\$26,889
Helicon Associates	167,400	-	167,400	-	-
T. Papatheodoropoulos	-	37,000	-	37,000	11,128
Daniel Webster	-	80,000	10,728	69,272	14,105
Ronald Baker	-	50,000	6,704	43,296	8,815
Total Notes	<u>\$317,400</u>	<u>\$ 167,400</u>	<u>\$209,172</u>	<u>\$275,228</u>	<u>\$60,937</u>

Annual debt service requirements to maturity for the above long-term obligations are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 60,937	\$ 24,780	\$ 85,717
2008	67,317	18,400	85,717
2009	74,366	11,351	85,717
2010	67,152	4,238	71,390
2011	5,456	69	5,525
Total	<u>\$ 275,228</u>	<u>\$ 58,838</u>	<u>\$ 334,066</u>

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

**Governmental Activities:**

Long-term obligations currently outstanding are as follows:

Installment loan due monthly installments of \$3,187 beginning July 1, 2005, through June 1, 2010. The Interest rate is 10% per annum.	\$125,660
Installment loan due monthly installments of \$1,194 beginning July 1, 2006, through June 1, 2009. The interest rate is 10% per annum.	37,000
Installment loan due monthly installments of \$1700 beginning September 1, 2005, through August 1, 2011. The interest rate is 10% per annum.	69,272
Installment loan due monthly installments of \$1062 beginning September 1, 2005, through August 1, 2011. The interest rate is 10% per annum.	<u>43,296</u>
	<u>\$275,228</u>

**Note 7. Operating Lease Agreement**

B-36 The Academy leases classroom facilities under a non-cancelable operating lease agreement. Lease expense for year ended June 30, 2006 was \$250,000. The term of the lease is eight years beginning July 1, 2004 through June 30, 2012. The lease covers property located at 14800 Middlebelt Road, Livonia, Michigan. The lease agreement contains a purchase option effective April 1, 2008 through March 31, 2012. This purchase option allows the Academy to obtain the real estate for the market value on the option date.

The future minimum rental payments for the balance of the lease are as follows:

2006 - 2007	270,000
2007 - 2008	275,400
2008 - 2009	280,908
2009 - 2010	286,526
2010 - 2012	<u>590,358</u>
	<u>\$ 1,703,192</u>

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

**Note 8. Revenue Anticipation Note**

American Montessori Academy had an outstanding revenue anticipated note of \$240,227 with an interest rate of 6.5% to assist with operational cash flows prior to the receipt of state aid payments. The note is secured by funding provided from the State of Michigan's foundation grant revenue. The balance at June 30, 2006 was \$141,909 with a maturity date of August 31, 2006. A new note was obtained on April 12, 2006 by the Academy in the amount of \$595,227 with interest per annum at a rate equal to the bank's prime rate from time to time in effect minus ½% per annum until maturity August 24, 2006. The following is a summary of revenue anticipation notes of the Academy for the year ended June 30, 2006:

	Balance 7/1/2005	Additions	Reductions	Balance 6/30/2006
2004 - 2005	\$ 96,091	\$ -	\$ 96,091	\$ -
2005 - 2006	589,773	\$ 240,227	688,091	141,909
2006 - 2007	<u>-</u>	<u>595,227</u>	<u>-</u>	<u>595,227</u>
Total Notes	<u>\$ 685,864</u>	<u>\$ 835,454</u>	<u>\$ 784,182</u>	<u>\$ 737,136</u>

**Note 9. Purchased Services**

The Academy leases all employee services from MJ Management Services, Inc. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of this management company.

**Note 10. Management Company**

Helicon Associates, Inc. provides management services under a Consultancy Services Agreement that commenced on July 1, 2004 and shall expire on June 30, 2007. The management company's fee is 12% of state aid which the Academy receives. All subsequent years are based on increases of the average costs of living rate in the Detroit, Michigan area.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

**Note 11. Oversight Fees**

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and proposal A obligation payments to the Bay Mills Community College, as set forth by contract, to reimburse the University for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2006, the Academy incurred expense of approximately \$40,776 for oversight fees.

**Note 12. Risk Management**

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employee's and natural disasters.

The Academy continues to carry commercial insurance for other risks of loss.

REQUIRED SUPPLEMENTARY INFORMATION

**American Montessori Academy**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual	Variance with final budget Positive (Negative)
<b>Revenues:</b>				
Local sources				
Fees, private sources	\$ 20,000	\$ 35,000	\$ 33,613	\$ (1,387)
Investment income	2,500	3,500	8,230	4,730
Other	-	20,000	24,079	4,079
Total local revenues	22,500	58,500	65,922	7,422
State sources	1,416,000	1,466,309	1,390,688	(75,621)
Federal sources	38,266	41,685	113,218	71,533
Total revenues	1,476,766	1,566,494	1,569,828	3,334
<b>Expenditures:</b>				
Current:				
Instruction				
Basic programs	462,837	494,079	482,287	11,792
Added needs	34,645	26,693	24,549	2,144
Total instruction	497,482	520,772	506,836	13,936
<b>Expenditures (concluded):</b>				
Current (concluded):				
Support services:				
Pupil	47,000	52,000	37,652	14,348
Improvement of instruction	35,500	68,419	64,659	3,760
General administration	237,450	226,166	223,054	3,112
School administration	140,644	141,789	140,839	950
Business and fiscal services	117,150	122,300	121,998	302
Operations/maintenance	326,900	350,725	337,767	12,958
Central	2,000	6,500	5,178	1,322
Total support services	906,644	967,899	931,147	36,752
Community services	9,824	15,206	12,438	2,768
Debt:				
Principal retirements	50,775	209,175	209,172	3
Total expenditures	1,464,725	1,713,052	1,659,593	53,459
<b>Excess (deficiency) of revenues over expenditures</b>	12,041	(146,558)	(89,765)	56,793
<b>Other financing sources (uses):</b>				
Lease proceeds		167,400	167,000	(400)
Total other financing sources (uses):	-	167,400	167,000	(400)
<b>Net change in fund balance</b>	12,041	20,842	77,235	56,393
<b>Fund balance:</b>				
Beginning of year	27,272	27,272	27,272	-
End of year	\$ 39,313	\$ 48,114	\$ 104,507	\$ 56,393



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
American Montessori Academy  
Livonia, MI 48154

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of American Montessori Academy as of and for the year ended June 30, 2006, which collectively comprise American Montessori Academy's basic financial statements of the Academy and have issued our report thereon dated September 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered American Montessori Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether American Montessori Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to the management of American Montessori Academy in a separate letter dated September 1, 2006.

This report is intended solely for the information and use of the Board of Directors and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

DARNELL & MEYERING, P.C.

September 1, 2006

**American Montessorri Academy  
Report on Financial Statements  
For the Fiscal Year Ended  
June 30, 2005**

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REPORT ON FINANCIAL STATEMENTS  
(with required supplementary information)  
For the Fiscal Year Ended  
June 30, 2005**

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### **Independent Auditors' Report**

Board of Directors  
American Montessori Academy  
14800 Middlebelt Road  
Livonia, Michigan 48154

We have audited the accompanying financial statements of the governmental activities and each major fund of the American Montessori Academy, as of and for the year ended June 30, 2005, which collectively comprise the Charter Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the American Montessori Academy as of June 30, 2005 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2005, on our consideration of American Montessori Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the

internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 29, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

DARNELL & MEYERING, P.C.

August 25, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of American Montessori Academy's (academy) annual financial report presents our discussion and analysis of the public school academy's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the Academy's financial statements, which immediately follow this section. This is the first year of operations for the Academy. In subsequent years, a comparative analysis will be provided.

### Financial Highlights

- The academy's net assets after their first year of operation are \$(33,984).
- Blended enrollment used for state aid purposes was 165.50 in June 2005.
- The academy's capital outlay was \$293,624.
- The academy maintained its outstanding liabilities.

### Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the academy.

The first two statements are academy-wide financial statements that provide both short-term and long-term information about the academy's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the academy, reporting the academy's operations in more detail than the academy-wide statements.

The governmental funds statements tell how basic services like regular education were financed in the short-term as well as what remains for future spending.

Fiduciary funds statements provide information about the financial relationships in which the academy acts solely as an agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-1 Organization of American Montessori Academy Annual Financial Report

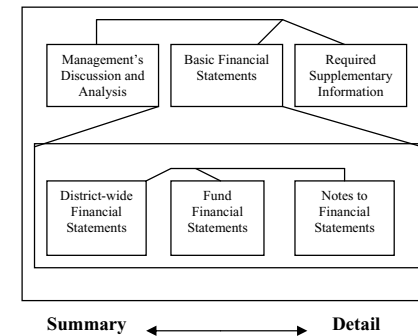


Figure A-2 summarized the major features of the academy's financial statements, including the portion of the academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**Figure A – 2 Major Features of the Academy-Wide and Fund Financial Statements**

	Academy-wide statements	Fund Financial Statements	
		Governmental funds	Fiduciary funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary	Instances in which the academy administers resources on behalf of someone else, such as student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the academy's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

**Academy-wide statements**

The Academy-wide statements report information about the academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the academy's net assets and how they have changed. Net assets – the difference between the academy's assets and liabilities, are one way to measure the academy's financial health or position.

- Over time, increases or decreases in the academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the academy, you need to consider additional non-financial factors such as changes in the academy's enrollment, the condition of school buildings and other facilities, and the academy's ability to be competitive with other public school academies and area school districts.

**Fund financial statements**

The fund financial statements provide more detailed information about the academy's funds, focusing on its more significant or "major" funds – not the academy as a whole. Funds are accounting devices the academy uses to keep track of specific sources of funding and spending on particular programs:

Governmental activities – The academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The academy has two kinds of funds:

Governmental fund – Most of the academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the academy's programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Fiduciary funds – The academy is the fiduciary for assets that belong to others, such as the student activities funds. The academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and used by those to whom the assets belong. We exclude these activities from the academy-wide financial statements because the academy cannot use these assets to finance its operations.

### Financial analysis of the academy as a whole

Net assets - the academy's combined net assets were \$(33,984) on June 30, 2005. See Figure A – 3.

The total revenues were \$1,191,688. State aid foundation allowance included in revenue from state sources accounts for 98 percent of the academy's revenue.

The total cost of instruction was \$730,293. Total cost of support services were \$743,864.

The academy's stable financial position is the product of many factors. The primary reasons are the number of students enrolled and the management of expenses to bring them into line with the academy's revenue.

### Academy governmental activities

The stable health of the academy's finances results from a balance between a weaker economy resulting in less state and other revenue and offset by the management of expenses. The school board oversaw the academy's financial activities while the administration carefully managed expenses and reduced support service expenses.

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<b>Figure A-3</b>	
<b>American Montessori Academy</b>	
	2005
Current assets	\$ 738,313
Capital assets	256,144
Total assets	994,457
Liabilities	1,028,441
Net assets	
Invested in capital assets, net of related debt	(37,480)
Unrestricted	3,496
Total net assets	<u>\$ (33,984)</u>

<b>Figure A-4</b>	
<b>Changes in Mount Clemens Montessori Academy's Net Assets</b>	
	2005
Revenues:	
Program revenues:	
Federal and state categorical grants	\$ 13,027
General revenues:	
State aid - unrestricted	1,158,500
Investment	1,036
Charges for services	19,125
Total revenues	1,191,688
Expenses:	
Instruction	450,649
Support services	706,539
Community services	7,659
Interest	23,345
Unallocated depreciation	37,480
Total expenses	1,225,672
Change in net assets	<u>\$ (33,984)</u>

### Financial analysis of the academy's funds

The stable financial performance of the academy as a whole is reflected in its governmental fund. As the academy completed the year, its governmental funds (general) reported a fund balance of \$27,272.

### General fund budgetary highlights

Over the course of the year, the academy revised the annual operating budget two times. These budget amendments fall into several categories:

Changes were made in the second and fourth quarters to account for student enrollment counts, federal funds, and changes in assumptions (e.g. staffing changes, attorney fees, and utility costs) since the original budget was adopted.

While the academy's final budget for the general fund anticipated revenues would exceed expenditures by \$2,194, the actual results for the year showed revenues over expenditures of \$27,272.

Actual revenues were \$2,060 higher than budgeted.

The actual expenditures were \$23,018 under budget.

**American Montessori Academy**  
**Statement of Net Assets**  
**June 30, 2005**

**Capital asset and debt administration**

**Capital assets**

By the end of the year ended June 30, 2005, the academy had invested \$256,144 in capital assets consisting primarily of computers, software, furniture and fixtures net of accumulated depreciation. More detailed information about capital assets can be found in Note 4 to the financial statements. Total depreciation expense for the year was \$37,480.

The Academy's capital assets are as follows:

<b>Figure A-5</b>			
<b>American Montessori Academy's Capital Assets</b>			
	<u><b>Cost</b></u>	<u><b>Accumulated Depreciation</b></u>	<u><b>Net Book Value</b></u>
Computer equipment	\$ 53,020	\$ 8,837	\$ 44,183
Furniture and fixtures	240,604	28,643	211,961
Total	<u>\$ 293,624</u>	<u>\$ 37,480</u>	<u>\$ 256,144</u>

	<u>Governmental Activities</u>
<b>Assets</b>	
<b>Current Assets:</b>	
Cash and equivalents	\$ 522,361
Receivables:	
Other Governmental Units	213,816
Prepaid Expenses and Security Deposits	2,136
<b>Total Current Assets</b>	<u>738,313</u>

<b>Noncurrent Assets:</b>	
Capital Assets	293,624
Less Accumulated Depreciation	(37,480)
<b>Total Noncurrent Assets</b>	<u>256,144</u>
<b>Total Assets</b>	<u>\$ 994,457</u>

**Liabilities And Net Assets**

<b>Current Liabilities:</b>	
Accounts Payable	\$ 17,624
Accrued Interest	2,707
Due to Student Activities	4,846
Revenue Anticipation Note	685,864
Current Portion of Long Term Obligations	51,504
<b>Total Current Liabilities</b>	<u>762,545</u>

<b>Noncurrent Liabilities:</b>	
Noncurrent Portion of Long Term Obligations	265,896
<b>Total Noncurrent Liabilities</b>	<u>265,896</u>
<b>Total Liabilities</b>	<u>1,028,441</u>

<b>Net Assets:</b>	
Invested in Capital Assets - Net of Related Debt	(37,480)
Unrestricted	3,496
<b>Total Net Assets</b>	<u>\$ (33,984)</u>

**Long-term debt**

At year end the Academy had \$317,400 in installment obligations. (More detailed information about the Academy's long-term liabilities is presented in Note 6 to the Financial Statements).

**Factors bearing on the academy's future**

At the time these financial statements were prepared and audited, the academy was aware of existing circumstances that could significantly affect its financial health in the future.

The 2005-2006 foundation allowance (state aid funding) from the State of Michigan has increased to \$7,175 per student. The foundation allowance represents 98 percent of the total academy revenue.

**Contacting the academy's financial management**

This financial report is designed to provide our students, parents and creditors with a general overview of the academy's finances and to demonstrate the academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the academy's office at 2525 West Jefferson, Trenton, MI 48183.

See notes to financial statements.

**American Montessori Academy**  
**Statement of Activities**  
**Year Ended June 30, 2005**

Functions/programs	Expenses	Program Revenues		Governmental
		Charges for	Operating Grants	Activities
		Services	& Contributions	Net (expense)
				Revenue and
				Changes in
				Net Assets
Governmental activities:				
Instruction	\$ 450,649	\$ -	\$ 13,027	\$ (437,622)
Support Services	706,539	-	-	(706,539)
Community Services	7,659	19,125	-	11,466
Interest Expense	23,345	-	-	(23,345)
Unallocated depreciation	37,480	-	-	(37,480)
Total Governmental Activities	<u>\$ 1,225,672</u>	<u>\$ 19,125</u>	<u>\$ 13,027</u>	(1,193,520)
General Revenues:				
State of Michigan School Aid Unrestricted				1,158,500
Investment Revenue				<u>1,036</u>
Total General Revenues				1,159,536
Change in Net Assets				(33,984)
Net Assets, Beginning of Year				<u>-</u>
Net Assets, End of Year				<u><u>\$ (33,984)</u></u>

**American Montessori Academy**  
**Balance Sheet**  
**Governmental Fund**  
**Year Ended June 30, 2005**

	General
	Fund
<b>Assets</b>	
<b>Assets:</b>	
Cash and equivalents	\$ 522,361
Receivables	
Other Governmental Units	213,816
Prepaid Expenses	<u>2,136</u>
<b>Total Assets</b>	<u><u>\$ 738,313</u></u>
<b>Liabilities and Fund Balances</b>	
<b>Liabilities:</b>	
Accounts Payable	\$ 17,624
Accrued Interest	2,707
Due to Other Funds	4,846
Revenue Anticipation Note	<u>685,864</u>
<b>Total Liabilities</b>	<u>711,041</u>
<b>Fund Balances:</b>	
Reserved for Prepaid Expenses	2,136
Unreserved, Undesignated	<u>25,136</u>
Total Fund Balances	<u>27,272</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 738,313</u></u>
<b>Total Governmental Fund Balances</b>	<u>\$ 27,272</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are financial resources and are not reported in the funds	
The cost of capital assets is	\$ 293,624
Accumulated depreciation is	<u>(37,480)</u>
	256,144

Long term liabilities are not due and payable in the current period and are not reported in the funds	
Long term obligations	(317,400)

**Net assets of governmental activities** \$ (33,984)

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See notes to financial statements.

See notes to financial statements.



**American Montessori Academy**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**Year Ended June 30, 2005**

	General Fund
<b>Revenues:</b>	
Local Sources:	
Fees, Private Sources	\$ 19,125
Investment Income	1,036
	<hr/>
Total Local Revenues	20,161
State Sources	1,170,652
Federal Sources	875
	<hr/>
Total Revenues	1,191,688
<b>Expenditures:</b>	
Current:	
Instruction	
Basic Programs	705,749
Added Needs	24,544
	<hr/>
Total Instruction	730,293
Support Services:	
Pupil	36,750
Instructional Staff	26,534
General Administration	172,182
School Administration	141,830
Business and Fiscal Services	67,772
Operations/maintenance	297,349
Central	1,447
	<hr/>
Total Support Services	743,864
Community Services	7,659
	<hr/>
Total Expenditures	1,481,816
<b>Excess (Deficiency) of Revenues Over</b>	
Expenditures	<hr/> (290,128)
<b>Other Financing Sources (Uses):</b>	
Lease Proceeds	317,400
Total Other Financing Sources (Uses):	<hr/> 317,400
<b>Net Change in Fund Balances</b>	27,272
<b>Fund Balances</b>	
Beginning of Year	-
End of Year	<hr/> <u>\$ 27,272</u>

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See notes to financial statements.

**American Montessori Academy**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**Year Ended June 30, 2005**

**Net change in fund balances total governmental funds** \$ 27,272

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.	
In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Capital outlay	293,624
Depreciation expense	(37,480)
Proceeds from a capital lease is an other financing source in the governmental funds, but it is not in the statement of activities. It is shown as debt on the statement of net assets.	<hr/> (317,400)
<b>Change in net assets of governmental activities</b>	<hr/> <u>\$ (33,984)</u>

See notes to financial statements.

**American Montessori Academy**  
**Statement of Fiduciary Net Assets**  
**June 30, 2005**

	Agency Fund Student Activities
<b>Assets:</b>	
Due from General Fund	\$ 4,846
<b>Total Assets</b>	<u>\$ 4,846</u>
<b>Liabilities:</b>	
Due to Student Groups	\$ 4,846
<b>Total Liabilities</b>	<u>\$ 4,846</u>

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2005

**Note 1. Summary of Significant Accounting Policies**

The accounting policies of American Montessori Academy conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy.

**A. Reporting Entity**

American Montessori Academy is a public school academy in its first year of operations. A public school academy is a public school under Section 2 of Article VIII of the State Constitution of 1963 and is subject to the leadership and general supervision of the State Board of Education. Bay Mills Community College is the authorizing body of the Academy and has contracted with the Academy confirming the status of the public school academy. American Montessori Academy's school board is approved by the authorizing body and is authorized to manage the property and affairs of the Academy. The Academy does not include any component unit within its financial statements.

**B. American Montessori Academy Adoption of New Account Standards**

During the fiscal period 2005, the Academy adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussions and Analysis for State and Local Governments*, issued June 1999; GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Omnibus*, an amendment to GASB Statement No. 21 and No. 34, issued June 2001, and; in GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001. These statements require the Academy to prepare a Management's Discussion and Analysis, charter-wide financial statements on an accrual basis and make some changes to the footnotes. Beginning net assets were not effected by the implementation of GASB 34 because this is the first year of operations.

**C. Charter-Wide and Fund Financial Statements**

**Measurement focus, basis of accounting, and financial statement presentation**

**CHARTER-WIDE STATEMENTS**

The charter-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The charter-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school Academy and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the charter-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Academy first utilizes restricted resources to finance qualifying activities.

The charter-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues).

The Academy does not allocate indirect costs.

This charter-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The charter-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

Major individual governmental funds are reported as separate columns in the fund financial statements.

#### FUND BASED STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The Academy reports the following major fund:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

Fiduciary funds account for assets held by the Academy as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements. The Academy has one fiduciary fund called an agency fund which primarily accounts for student activities.

#### D. Assets, Liabilities and Net Assets or Equity

##### 1. Deposits and Investments

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosure*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. The Academy had no investments at June 30<sup>th</sup>.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is

also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. Banks, and mutual funds composed of investments as outlined above.

2. Receivables

The State of Michigan utilizes a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to charter schools based on information supplied by the schools. For the year June 30, 2005 the foundation allowance was based on the pupil membership counts taken in September of 2004 and February of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sale and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October, 2004 to August, 2005. Thus, the unpaid portion at June 30 is reported as state aid receivable.

The Academy also receives revenue from the State to administer certain categorical education programs, State rules required that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the charter-wide and fund financial statements.

4. Fund Equity Balance

The unreserved fund equity balances for governmental funds represent the amount available for budgeting future operations. The reserved fund equity balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources". The designated fund equity balances for governmental funds represent tentative plans for future use of financial resources.

5. Capital Assets

Capital assets, include property, plant, and equipment are reported in the applicable governmental activities column in the charter-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased of constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure type assets.

Depreciation on all assets is provided using the straight-line method over the following useful lives:

Computers	5 years
Furniture and equipment	20 years

6. Use of Estimates

The process of preparing general purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

**Note 2. Stewardship, Compliance and Accountability**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for capital outlay which is reported in the function or activity it services. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at fiscal year end.

The Academy maintains a formalized encumbrance accounting system.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

A. The Management Organization submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances – budget and actual – general fund and special revenue funds.

B. Public hearings are conducted to obtain local public comments.

C. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates.

Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated.

Any expenditures in violation of the budgeting act are disclosed as unfavorable variances on the combined statement of revenues, expenditures and changes in fund balances – budget and actual (GAAP basis) – general fund.

D. The management company is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

E. Formal budgetary integration is employed as a management control device during the year for the general fund.

F. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30<sup>th</sup>.

G. The Academy did not have significant expenditure budget variances.

**Note 3. Deposits and Investments**

The American Montessori Academy is governed by the deposit and investment limitations of Michigan State law which limitations are indicated in the Summary of Significant Accounting policies reported earlier. The deposits and investments held at June 30, 2005, and reported at fair value, are as follows:

Type	Carrying Value
Deposits:	
Cash on Hand	\$ 100
Demand Deposits	<u>522,261</u>
Total Deposits and Investments	<u>\$ 522,361</u>
Reconciliation To Statement of Net Assets:	
Current:	
Cash and Cash Equivalents	<u>\$ 522,361</u>

Interest Rate Risk

In accordance with it's investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of the securities in the portfolio will fall due to changes in market interest rates. The Academy has no investments as of June 30, 2005.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issues by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2005, the Academy had no rated investments only cash and cash equivalents.

Concentration of Credit Risk

The Academy has no investments as of June 30, 2005.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2005, \$422,814 of the Academy's bank balance of \$522,814 was exposed to custodial credit risk because it was uninsured and uncollateralized. All deposits were with Comerica Bank in the State of Michigan.

Custodial Credit Risk – Investments

The Academy has no investments as of June 30, 2005.

Foreign Currency Risk

The academy is not authorized to invest in investments, which have this type of risk.

**Note 4. Receivables**

Receivables as of year-end were as follows:

	<u>General</u>
Receivables:	
Federal grant	\$ 875
State aid	<u>212,941</u>
Net total receivables	<u>\$ 213,816</u>

All receivables were deemed collectible as of June 30, 2005.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

**Note 5. Capital Assets**

Capital asset activity for the Academy for the current fiscal year was as follows:

Capital Assets Being Depreciated	Balance <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2005</u>
Computers	\$ -0-	\$ 53,020	\$ -0-	\$ 53,020
Furniture & Equipment	<u>-0-</u>	<u>240,604</u>	<u>-0-</u>	<u>240,604</u>
Subtotal	<u>-0-</u>	<u>293,624</u>	<u>-0-</u>	<u>293,624</u>
Less Accumulated Depreciation for:				
Computers	-0-	8,837	-0-	8,837
Furniture & Equipment	<u>-0-</u>	<u>28,643</u>	<u>-0-</u>	<u>28,643</u>
Subtotal	<u>-0-</u>	<u>37,480</u>	<u>-0-</u>	<u>37,480</u>
Capital Assets Net of Depreciation	<u>\$ -0-</u>	<u>\$ 256,144</u>	<u>\$ -0-</u>	<u>\$ 256,144</u>

Depreciation for the fiscal year ended June 30, 2005 amounted to \$37,480. The entire depreciated expense was unallocated to the operations of the Academy.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

**Note 6. Long-Term Debt**

The following is a summary of long-term obligations of the Academy for the year ended June 30, 2005:

	Balance			Balance	Due Within
	7/1/04	Additions	Reductions	6/30/05	One Year
<b>Capital Leases</b>					
David McHugh	\$ -	\$ 150,000	\$ -	\$ 150,000	\$ 24,340
Helicon Associates	-	167,400	-	167,400	27,164
Total Notes	<u>\$ -</u>	<u>\$ 317,400</u>	<u>\$ -</u>	<u>\$ 317,400</u>	<u>\$ 51,504</u>

The Academy has an outstanding lease for the acquisition of fixed assets. Payments are due in monthly installments of \$3,187 through June 1, 2010, with interest of 10%. The annual requirements to service the David McHugh Lease, including principal and interest are as follows:

Fiscal Year Ending	Principal	Interest	Total
<b>June 30</b>			
2006	\$ 24,340	\$ 13,905	\$ 38,245
2007	26,889	11,356	38,245
2008	29,705	8,540	38,245
2009	32,815	5,430	38,245
2010	36,251	1,994	38,245
Total	<u>\$ 150,000</u>	<u>\$ 41,225</u>	<u>\$ 191,225</u>

Amount due within one year: \$24,340

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

The Academy has an outstanding lease for the acquisition of fixed assets. Payments are due in monthly installments of \$3,557 through June 1, 2010, with interest of 10%. The annual requirements to service the Helicon Lease, including principal and interest are as follows:

Fiscal Year Ending	Principal	Interest	Total
<b>June 30</b>			
2006	\$ 27,164	\$ 15,517	\$ 42,681
2007	30,008	12,673	42,681
2008	33,150	9,531	42,681
2009	36,622	6,059	42,681
2010	40,456	2,225	42,681
Total	<u>\$ 167,400</u>	<u>\$ 46,005</u>	<u>\$ 213,405</u>

Amount due within one year: \$27,164

**Note 7. Operating Lease Agreement**

The Academy leases classroom facilities under a non-cancelable operating lease agreement. Lease expense for year ended June 30, 2005 was \$230,000. The term of the lease is eight years beginning July 1, 2004 through June 30, 2012. The lease covers property located at 14800 Middlebelt Road, Livonia, Michigan. The lease agreement contains a purchase option effective April 1, 2008 through March 31, 2012. This purchase option allows the Academy to obtain the real estate for the market value on the option date.

The future minimum rental payments for the balance of the lease are as follows:

2005 - 2006	\$ 250,000
2006 - 2007	270,000
2007 - 2008	275,400
2008 - 2009	280,908
2009 - 2010	286,526
2010 - 2012	590,358
	<u>\$ 1,953,192</u>

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

**Note 8. Revenue Anticipation Note**

American Montessori Academy has an outstanding revenue anticipated note of \$96,091, with an interest rate of 4.45% to assist with operational cash flows prior to the receipt of state aid payments. The note is secured by funding provided from the State of Michigan's foundation grant revenue. The balance at June 30, 2005 was \$96,091 with a maturity date of August 24, 2005. A new note was obtained by the Academy in the amount of \$589,773 with an interest per annum at a rate equal to the bank's prime rate from time to time in effect minus 1/2% per annum until maturity September 30, 2005. The Academy is confident that this note will be renewed for the 2005 – 2006 school year.

The following is a summary of revenue anticipation notes of the Academy for the year ended June 30, 2005:

	Balance 7/1/04	Additions	Reductions	Balance 6/30/05
2004 - 2005	\$ -	\$ 480,455	\$ 384,364	\$ 96,091
2005 - 2006	-	<u>589,773</u>	-	<u>589,773</u>
Total Notes	<u>\$ -</u>	<u>\$1,070,228</u>	<u>\$ 384,364</u>	<u>\$ 685,864</u>

**Note 9. Purchased Services**

The Academy leases all employee services from MJ Management Services, Inc. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of this management company.

**Note 10 Management Company**

Helicon Associates, Inc. provides management services under a Consultancy Services Agreement that commenced on July 1, 2004 and shall expire on June 30, 2007. The management company's fee is 12% of state aid which the Academy receives plus \$18,000 for the year ended June 30, 2005. All subsequent years are based on increases of the average costs of living rate in the Detroit, Michigan area.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

**Note 11. Oversight Fees**

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and proposal A obligation payments to the Bay Mills Community College, as set forth by contract, to reimburse the University for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2005, the Academy incurred expense of approximately \$35,120 for oversight fees.

**Note 12. Risk Management**

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employee's and natural disasters.

The Academy continues to carry commercial insurance for other risks of loss.



**American Montessori Academy**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2005**

	Original Budget	Final Budget	Actual	Variance with final budget Positive (Negative)
<b>Revenues:</b>				
Local Sources:				
Fees, Private Sources	\$ -	\$ 17,150	\$ 19,125	\$ 1,975
Investment Income	2,500	950	1,036	86
Total Local Revenues	2,500	18,100	20,161	2,061
State Sources	1,295,000	1,170,654	1,170,652	(2)
Federal Sources		874	875	1
Total Revenues	1,297,500	1,189,628	1,191,688	2,060
<b>Expenditures:</b>				
Current:				
Instruction				
Basic Programs	731,833	714,037	705,749	8,288
Added Needs	2,500	27,085	24,544	2,541
Total Instruction	734,333	741,122	730,293	10,829
Support Services:				
Pupil	-	35,000	36,750	(1,750)
Instructional Staff	55,000	26,534	26,534	-
General Administration	219,250	174,525	172,182	2,343
School Administration	131,885	142,556	141,830	726
Business and Fiscal Services	117,750	68,750	67,772	978
Operations/maintenance	329,000	305,600	297,349	8,251
Central	-	2,000	1,447	553
Total Support Services	852,885	754,965	743,864	11,101
Community Services	-	8,747	7,659	1,088
Total Expenditures	1,587,218	1,504,834	1,481,816	23,018
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(289,718)	(315,206)	(290,128)	25,078
<b>Other Financing Sources (Uses):</b>				
Note Proceeds	300,000	317,400	317,400	-
Total Other Financing Sources (Uses):	300,000	317,400	317,400	-
<b>Net Change in Fund Balances</b>	10,282	2,194	27,272	25,078
<b>Fund Balances</b>				
Beginning of Year	-	-	-	-
End of Year	\$ 10,282	\$ 2,194	\$ 27,272	\$ 25,078

See notes to financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENTAL AUDITING STANDARDS**

Board of Directors  
American Montessori Academy  
Livonia, Michigan 48154

We have audited the financial statements of the governmental activities and each major fund of American Montessori Academy as of and for the year ended June 30, 2005, which collectively comprise American Montessori Academy's basic financial statements of the Academy's private government and have issued our report thereon dated August 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered American Montessori Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of

performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether American Montessori Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of American Montessori Academy in a separate letter dated August 25, 2005.

This report is intended solely for the information and use of the board of directors and management, and is not intended to be and should not be used by anyone other than these specific parties.

DARNELL & MEYERING, P.C.

August 25, 2005

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**APPENDIX C**

**SUMMARY OF CERTAIN MICHIGAN  
STATUTORY PROVISIONS PERTAINING  
TO PUBLIC SCHOOL ACADEMIES**

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## **APPENDIX C**

### **SUMMARY OF CERTAIN MICHIGAN STATUTORY PROVISIONS PERTAINING TO PUBLIC SCHOOL ACADEMIES**

#### ***Definition of Public School Academy (M.C.L. § 380.501(1), 380.502(1))***

A public school academy is a state-supported public school that is considered both a body corporate and a governmental agency. According to the statutes, a public school academy must be organized under Michigan's non-profit corporation act, M.C.L. §§ 450.2101 to 450.3192. A public school academy is also considered a school district for purposes of borrowing money and issuing notes and bonds pursuant to M.C.L. § 380.1225 and 380.1351a, respectively, and it is subject to the leadership and general supervision of the state board of public education. The state board of education is responsible for issuing an annual comprehensive report evaluating public school academies to the house and senate committees on education. See M.C.L. § 380.501a.

#### ***Sponsors of and Applicants for Public School Academies (M.C.L. § 380.502)***

Charter contracts may be issued by any one of the following authorizing bodies: (i) local school districts, (ii) intermediate school districts, (iii) community colleges, and (iv) state public universities. Any person interested in operating a public school academy may apply to an authorizing body.

Currently, there is a cap on the number of charter contracts that can be issued by state public universities. The number of contracts for public school academies issued by all state public universities is 150. The number of contracts issued by any one state university shall not exceed 50% of the maximum total that may be issued by state universities.

#### ***Method of Establishment and Oversight of Public School Academies (M.C.L. § 380.502(3-7))***

When a person applies for a contract to operate a public school academy, the application must:

- (1) identify the applicant;
- (2) list the proposed members of the board of directors of the public school academy and a description of the qualifications and method for appointment or election of the board of directors;
- (3) include a copy of the proposed articles of incorporation for the public school academy, including (i) the name of the proposed public school academy, (ii) the purposes of the public school academy, (iii) the name of the authorizing body, (iv) the proposed time when the articles of incorporation will be effective, and (v) other matters as necessary;
- (4) include a copy of the proposed bylaws of the public school academy;
- (5) document the requirements of the authorizing body, including (i) the governance structure of the public school academy, (ii) a copy of the educational goals of the public school academy, the curricula to be offered, and the methods of pupil assessment, (iii) the admission policy and criteria to be maintained, (iv) the school calendar and school day schedule, and (v) the age or grade range of pupils to be enrolled;
- (6) describe staff responsibilities and the governance structure;
- (7) identify the local and intermediate school districts in which the public school academy will be located;
- (8) agree that the public school academy will comply with all applicable state and federal laws;
- (9) for an application to a school district, assure that employees of the public school academy will be covered by collective bargaining agreements that apply to other public employees in schools; and
- (10) describe and identify the address where the public school academy will be located.

An authorizing body that issues a contract for a public school academy must oversee the public school academy to ensure that the public school academy is in compliance with statutes, rules, and the terms of the contract. If an authorizing body grants a charter contract, it may charge a fee that does not exceed 3% of the total state school aid received by the public school academy in the school year in which the fees and expenses are charged. An authorizing body may contract with a public school academy for other services in addition to the oversight services.

***Legal Status of Public School Academy (M.C.L. § 380.501, 380.503b)***

A public school academy is a body corporate, a governmental agency, a public school, and is considered a school district under certain provisions of State law. If a public school academy enters into an agreement, mortgage, loan, or other instrument of indebtedness with a third party, such arrangement does not constitute an obligation, either general, special, or moral of the State of Michigan or the authorizing body. The State or an authorizing body is not liable for any debt incurred by a public school academy.

***Public School Academy Funding (§ 388.1601 et. seq.; § 141.2101 et. seq.)***

A public school academy receives funding through the per pupil base foundation, as calculated in Michigan's State School Aid Act, M.C.L. § 388.1601 et. seq. The School Aid Act currently provides that pupil membership is based upon a blended count of 75% of the current September count plus 25% of the prior February supplemental count, all as determined by the Michigan Department of Education. A public school academy's State School Aid is sent directly to the academy's authorizing body, which takes its 3% fee and then forwards the remainder of the aid payments to the public school academy. Pursuant to the State School Aid Act, a school district receives its annual State School Aid entitlement in eleven equal installments on dates in October through August, subject to certain statutory adjustments. By law, a public school academy's State School Aid payment must not exceed the per-pupil base foundation received by the local school district in which the public school academy is located.

A public school academy may not charge tuition and may not levy taxes. A public school academy may receive federal grant funds directly from the Michigan Department of Education by following the same procedures that local school districts are required to follow. A public school academy may borrow money and may issue bonds in accordance with the Revised School Code, M.C.L. § 380.1 et. seq., and the Revised Municipal Finance Act, 2001 PA 34, M.C.L. §§ 141.2101 to 141.2821.

***Authorizing Body's Duties With Respect to State School Aid Payments (M.C.L. § 380.507)***

The authorizing body for a public school academy is the fiscal agent for the public school academy; therefore, it receives state school aid payments on behalf of the public school academy and then forwards such aid payments to the public school academy (less a fee that it may charge which does not exceed 3% of the total state school aid received by the public school academy in the school year in which the fees and expenses are charged).

***Withholding payment; plan for financing outstanding obligation defaulted upon by a public school academy; use of amounts withheld; agreement assigning or pledging payment (M.C.L. § 388.1617a)***

The Michigan Department of Treasury may withhold all or part of any payment of State School aid that a public school academy is entitled to receive to the extent the withholdings are a component part of a plan, developed and implemented pursuant to the revised municipal finance act, 2001 PA 34, MCL 141.2101, *et al*, or other statutory authority, for financing an outstanding obligation upon which the public school academy defaulted. Amounts withheld shall be used to pay, on behalf of the public school academy, unpaid amounts or subsequently due amounts, or both, of principal and interest on the outstanding obligation upon which the public school academy defaulted.

Under an agreement entered into by a public school academy assigning all or a portion of the payment of State School aid that it is eligible to receive to a trustee of a pooled arrangement, such as the Issuer, or pledging the amount for payment of an obligation it incurred with a trustee of a pooled arrangement, the state treasurer shall transmit to the trustee of a pooled arrangement the amount of the

payment of the State School aid that is assigned or pledged under the agreement. This section does not require the State of Michigan to make an appropriation to any public school academy and shall not be construed as creating an indebtedness of the State of Michigan, and any agreement made pursuant to this section shall contain a statement to that effect.

#### ***Deficit Budget or Operating Deficit (M.C.L. § 388.1702)***

Michigan law provides that a public school academy receiving State School aid shall not adopt or operate under a deficit budget, or incur an operating deficit in any fund, during a school fiscal year. Where a public school academy has an existing deficit or incurs a deficit fund balance, such public school academy shall not receive payments under the School Aid Act until it submits to the Michigan Department of Education (the “Department”) a budget for the current school fiscal year and a plan for the elimination of the deficit not later than the end of the second school fiscal year after the deficit was incurred. In addition, a public school academy with an existing deficit or which incurs a deficit shall submit to the Department a monthly monitoring report on revenue and expenditures in a form prescribed by the Department. Any State School Aid payments that have been withheld from a public school academy due to a deficit will be released to the public school academy after the Department approves the deficit reduction plan and ensures that the budget for the current school fiscal year is balanced.

#### ***Revocation of Charter (M.C.L. § 380.507)***

A charter contract may be revoked by the authorizing body for the following reasons: (1) failure of the public school academy to abide by and meet the educational goals set forth in the contract, (2) failure of the public school academy to comply with all applicable law, (3) failure of the public school academy to meet generally accepted public sector accounting principles, and (4) any other grounds for revocation as specified in the charter contract. The decision to revoke a contract is in the discretion of the authorizing body, is final, and is not subject to review by a court or any state agency.

#### ***Issuance of Contracts (M.C.L. § 380.503)***

Public school academy contracts shall be issued on a competitive basis, while taking the following into consideration: (1) the resources available for the proposed public school academy, (2) the population to be served by the public school academy, and (3) the educational goals to be achieved by the public school academy. With respect to applications to a local school district, if the board denies an application for a public school academy contract, the person who applied for the contract may petition the board to place the question of the issuance of the contract on a ballot to be decided by the school electors of the school district. The petition must contain the same requirements that are to be included in an application for a charter contract and must be signed by at least 15% of the school electors in that school district.

Within 10 days of issuing a contract for a public school academy, the authorizing body must submit to the superintendent of public instruction a copy of the contract and application. The authorizing body must also adopt a resolution establishing the method of selection, length of term, and number of members of the board of directors of each public school academy subject to its jurisdiction.

A public school academy contract must include the following: (1) the educational goals of the public school academy and methods by which it will be held accountable (at a minimum, the pupil performance must be assessed using a Michigan educational assessment program (“MEAP”) test or an assessment instrument developed under Michigan’s Revised School Code); (2) the method to be used to monitor the public school academy’s compliance with applicable laws and its performance in meeting its educational objectives; (3) a description of the process for amending the contract during the term of the

contract; (4) all the matters required to be included in the application to an authorizing body for a charter contract; (5) for public school academies authorized by a school district, an agreement that the employees of the public school academy will be covered by any collective bargaining agreements that apply to the employees of the school district; (6) procedures and grounds for revoking the contract; (7) a description and address of the physical plant in which the public school academy will be located; and (8) requirements and procedures for financial audits, which are to be conducted at least annually by a certified public accountant in accordance with generally accepted governmental auditing principles.

Among the laws with which public school academies must comply are Michigan's Revised School Code, Michigan's State School Aid Act, the Open Meetings Act, the Freedom of Information Act, the Uniform Budgeting and Accounting Act, the Revised Municipal Finance Act, and other state and federal laws applicable to public school academies.

Public school academies and their board members, officers and staff have governmental immunity. Public school academies may acquire, hold, and own in their own name buildings and other property for school purposes and may condemn property if certain conditions are met. Public school academies are exempt from all taxation on their earnings and property. They may not levy ad valorem property taxes or any other taxes for any purpose.

#### ***Tuition and Admission at Public School Academies (M.C.L. § 380.504)***

A public school academy may not charge tuition and may not discriminate in its pupil admissions policies or practices based on race, disability, religion, gender, test scores, intellectual or athletic ability, measures of achievement or aptitude, or any other basis prohibited by law. However, a public school academy may predetermine the ages, grades, and number of students it will serve. If the number of applications to enroll in the public school academy exceeds the school's enrollment capacity, the public school academy shall use a random selection process for selecting pupils. Public school academies may operate any grades from kindergarten through grade 12 and may also operate early childhood education programs, an adult basic education program, adult high school completion program, or general educational development testing preparation program.

#### ***Additional Powers of Public School Academies (M.C.L. § 380.504a, 380.506)***

In addition to other powers, a public school academy may take action to carry out its educational mission. For that purpose, a public school academy has the power to: (i) sue and be sued, (ii) acquire, hold, and own in its own name real and personal property for educational purposes, and sell or convey the property, (iii) receive, disburse, and pledge funds for lawful purposes, (iv) enter into binding legal agreements with persons or entities as necessary for the operation, management, financing, and maintenance of the public school academy, (v) incur temporary indebtedness as authorized by state statutes, (vi) solicit and accept grants or gifts for educational purposes and establish non-profit corporations for the purpose of assisting the public school academy in furtherance of its public purposes, and (vii) borrow money and issue bonds in accordance with relevant state statutes.

Bonds issued by a public school academy are full faith and credit obligations of the public school academy, pledging the general funds or any other money available for such a purpose. Bonds issued by a public school academy are subject to the revised municipal finance act, 2001 PA 34, M.C.L. §§ 141.2101 to 141.2821.

Public school academies, with the approval of the authorizing body, may employ or contract with personnel as necessary for the operation of the public school academy, prescribe their duties, and fix their compensation.



***Teachers and Noncertified Individuals (M.C.L. § 380.505)***

Teachers in public school academies are subject to the same certification requirements as traditional public schools, with two exceptions. First, public school academies authorized by a state university may use as a classroom teacher a faculty member who is employed full-time by the university and has institutional tenure or is designated as being on tenure track. Second, public school academies authorized by a community college may use as a classroom teacher a full-time faculty member who has at least five years experience in teaching the subject matter he or she is teaching at the public school academy. Public school academies may develop and implement new teaching techniques or make significant revisions to known techniques. Public school academies must report these practices to the authorizing body and the state board.

THE CHARTER SCHOOL LAWS AND SCHOOL AID ACT ARE SUBJECT TO MODIFICATION BY THE MICHIGAN LEGISLATURE. THE AMOUNT, TIMING AND METHODOLOGY FOR CALCULATION OF STATE SCHOOL AID HAS CHANGED SIGNIFICANTLY IN RECENT YEARS, AND IS SUBJECT TO FUTURE LEGISLATIVE CHANGES.

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**APPENDIX D**

**COPIES OF THE TRUST INDENTURE AND  
THE FINANCING AGREEMENT**

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**TRUST INDENTURE****BETWEEN****MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY****AND****THE BANK OF NEW YORK TRUST COMPANY, N.A.****as Trustee****RELATING TO:**

**§**  
**MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY**  
**LIMITED OBLIGATION REVENUE BONDS**  
**(AMERICAN MONTESSORI ACADEMY PROJECT), SERIES 2007**

**Dated as of December 1, 2007****TABLE OF CONTENTS**Page

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## TRUST INDENTURE

**THIS TRUST INDENTURE** (“Indenture”) dated as of December 1, 2007, between the **MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY**, a public body corporate (the “Authority”), and **THE BANK OF NEW YORK TRUST COMPANY, N.A.**, a national banking association, as trustee, and its successor in trust and its assignees (the “Trustee”).

WHEREAS, the Authority has been created pursuant to the Enabling Legislation for, among other purposes, the purpose of lending money to public school academies; and

WHEREAS, the Authority is authorized to carry out the public purposes described in and contemplated by the Enabling Legislation by purchasing municipal obligations from public school academies and obtaining funds to make loans by issuing revenue bonds; and

WHEREAS, the Authority has determined that the purchase of the Academy's Municipal Obligation will further the purposes of the Enabling Legislation, will benefit the people of the State, will assist the Academy in fulfilling its needs, will provide for the orderly marketing of municipal obligations and will reduce the costs of borrowing to the Academy; and

WHEREAS, the Revised School Code, PA 451 of 1976, as amended (the “School Code”) authorizes public school academies to acquire real and personal property or interests in real or personal property, and finance their activities by purchase, gift, grant, devise, bequest, lease, sublease, installment purchase agreement, land contract option or condemnation and subject to mortgages, security interests or other liens; and

WHEREAS, the School Code also authorizes public school academies to borrow money and issue bonds to defray all or a part of the cost of purchasing, erecting, completing, remodeling, or equipping, or reequipping, except for equipping or reequipping for technology, school buildings, including library buildings, structures, athletic fields, playgrounds, or other facilities, or parts of or additions to those facilities; furnishing or refurbishing new or remodeled school buildings; acquiring, preparing, developing, or improving sites, or parts of or additions to sites, for school buildings, including library buildings, structures, athletic fields, playgrounds, or other facilities; purchasing school buses; acquiring, installing, or equipping or reequipping school buildings for technology or accomplishing a combination of these purposes; and

WHEREAS, American Montessori Academy (the “Academy”) has requested that the Authority assist in financing a Project and to pay certain expenses incidental to the issuance of the Bonds; and

WHEREAS, the Authority wishes to provide for the issuance of the Bonds for the purpose of providing funds to assist in the financing of the Project; and

WHEREAS, the Authority determines and declares that payment of the Costs of the Project as contemplated by the Financing Agreement and this Indenture, is necessary in order to

realize the objectives and purposes of the Enabling Legislation and fulfills a valid public purpose; and

WHEREAS, as security for the payment of the Bonds issued pursuant to this Indenture, the Authority has agreed to assign and pledge to the Trustee, the Security (as hereinafter defined); and

WHEREAS, all things necessary to make the Bonds, when authenticated by the Trustee and issued and delivered as provided in this Indenture, the legal, valid, binding and enforceable limited obligations of the Authority, according to the import thereof, and to create a valid assignment and pledge of the Security to the payment of the Bonds have been done and performed, and the execution and delivery of this Indenture and the execution, issuance and delivery of the Bonds, subject to the terms hereof, have in all respects been authorized;

**NOW, THEREFORE**, in consideration of the premises and of the covenants and undertakings herein expressed, the parties hereto agree as follows:

## **ARTICLE I**

### **DEFINITIONS**

#### **Section 1.01. Definitions.**

All terms used herein which are not defined herein but are defined in the Financing Agreement identified below shall have the meanings therein set forth, which definitions are by this reference incorporated herein and made a part hereof. In addition to terms elsewhere defined in this Indenture, the following words and terms as used in this Indenture and the preambles hereto shall have the following meanings unless the context or use clearly indicates another or different meaning or intent and such definitions shall be equally applicable to both the singular and plural forms of the terms and words herein defined:

“**Academy**” means American Montessori Academy, a public school academy, organized and existing under the laws of the State of Michigan, and their successors and assigns.

“**Academy Fiscal Year**” means the period commencing on the first day of July and ending on the last day of June of each year or such other twelve month period as may be designated by the Academy as the fiscal year of the Academy.

“**Academy Funded Reserve Account**” means the account by that name established within the Reserve Fund pursuant to Section 4.02 of this Indenture funded by Series 2007 Bond proceeds and Additional Bond proceeds or other funds of the Academy.

“**Academy Repayments**” means all amounts required to be paid by the Academy to the Authority (and the Trustee as the assignee of the Authority) pursuant to the Financing Agreement.

“**Academy Reserve Fund Requirement**” means an amount equal to the Reserve Fund Requirement less the Authority Contribution.

**“Additional Bonds”** means the additional bonds which are authorized to be issued in one or more series from time to time under Section 2.16 hereof.

**“Authority”** means the Michigan Public Educational Facilities Authority, created pursuant to the Enabling Legislation, or any successor to its rights and obligations under the Financing Agreement and this Indenture.

**“Authority Contribution”** means an amount equal to the initial amount of the Grant Funds.

**“Authority Funded Reserve Account”** means the account by that name established within the Reserve Fund pursuant to Section 4.02 of this Indenture funded by Grant Funds or other funds of the Authority authorized to be used for such purposes by the Executive Director or other authorized officer of the Authority.

**“Authorized Denominations”** means denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof.

**“Beneficial Owner”** means, when the Bonds are held in a book-entry only system, the owner of a Bond or portion thereof for federal income tax purposes.

**“Bond”** or **“Bonds”** means the Series 2007 Bonds and any Additional Bonds authorized to be issued hereunder.

**“Bond Counsel”** means a firm of nationally recognized attorneys at law acceptable to the Authority and experienced in legal work relating to the issuance of bonds the interest on which is excluded from gross income for federal income tax purposes under Section 103(a) of the Code.

**“Bond Fund”** means the fund created by Section 4.01 of this Indenture.

**“Bond Payment Date”** means any of the dates specified in this Indenture for payment of principal of and interest on the Bonds, i.e., the first day of June and December of each year with respect to interest, commencing June 1, 2008 and the first day of December with respect to principal, commencing December 1, 2012, all in the years shown in Exhibit A-1 until the respective Bonds are paid in accordance with their terms.

**“Bond Purchase Agreement”** means the Bond Purchase Agreement relating to the initial purchase of the Bonds among the Underwriter, the Authority and the Academy.

**“Bond Register”** means the books of the Authority kept by the Trustee to evidence the registration, transfer and exchange of Bonds.

**“Bond Resolution”** means the resolution adopted by the Authority on October 18, 2007, authorizing and approving the issuance and sale of the Bonds pursuant to this Indenture.

**“Bond Year”** means any twelve month period beginning December 1.

**“Bondholder”** or **“holder”** means the Registered Owner of any Bond.

**“Business Day”** means any day other than (i) a Saturday, (ii) a Sunday, (iii) a day on which banking institutions in the city in which the designated corporate trust office of the Trustee (or its bond registrar, paying agent or tender agent offices) is located, or (iv) a day on which the New York Stock Exchange is closed or the payment system of the Federal Reserve is not operational.

**“Charter School”** means a public school, as defined by the U.S. Department of Education in conjunction with the Credit Enhancement for Charter School Facilities Program, that:

- (a) in accordance with specific State statute authorizing the granting of charters to schools, is exempted from significant State or local rules that inhibit the flexible operation and management of public schools, but not from any rules relating to the other requirements of this paragraph;
- (b) is created by a developer as a public school, or is adapted by a developer from an existing public school, and is operated under public supervisions and direction;
- (c) has a specific set of educational objectives determined by the school’s developer and agreed to by the authorized public chartering agency;
- (d) provides a program of elementary or secondary education, or both;
- (e) is nonsectarian in its programs, admissions policies, employment practices, and all other operations, and is not affiliated with a sectarian school or religious institution;
- (f) does not charge tuition;
- (g) complies with the Age Discrimination Act of 1975, Title VI of the Civil Rights Act of 1964, Title IX of the Education Amendments of 1972, section 504 of the Rehabilitation Act of 1973, and part B of the Individuals with Disabilities Education Act;
- (h) is a school to which parents choose to send their children, and that admits students on the basis of a lottery, if more students apply for admission than can be accommodated;
- (i) agrees to comply with the same Federal and State audit requirements as do other elementary and secondary schools in the State, unless such requirements are specifically waived;
- (j) meets all applicable Federal, State, and local health and safety requirements;
- (k) operates in accordance with State law; and
- (l) has a written performance contract with the authorized public chartering agency in the State that includes a description of how student performance will be



measured in charter schools pursuant to State assessments that are required of other schools and pursuant to any other assessments mutually agreeable to the authorized public chartering agency and the charter school.

**“Code”** means the Internal Revenue Code of 1986, as amended, and the rulings and regulations (including temporary and proposed) promulgated thereunder and under the Internal Revenue Code of 1954, as amended.

**“Costs of the Project”** shall mean “Project Costs” as defined in the Financing Agreement.

**“Counsel”** means an attorney, or firm thereof, admitted to practice law before the highest court of any state in the United States of America or the District of Columbia.

**“Depository”** means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book entry system to record ownership of book entry interests in Bonds, and to effect transfers of book entry interests in Bonds in book entry form, the use of which will not impair the federal tax exemption of interest on the Bonds, and includes and means initially The Depository Trust Company (a limited purpose trust company), New York, New York.

**“Determination of Taxability”** means a determination that the interest income on any of the Bonds is included in gross income for federal income tax purposes, which determination shall be deemed to have been made upon the occurrence of the first to occur of the following:

(a) the day on which the Academy or the Authority is advised in writing by the Commissioner or any District Director of the Internal Revenue Service that, based upon any filings of the Academy or the Authority, or upon any review or audit of the Academy or the Authority, or upon any other grounds whatsoever, the interest on the Bonds is includable for federal income tax purposes in the gross income of any current or former holder or Beneficial Owner thereof;

(b) the day on which the Academy receives notice from the Trustee in writing that the Trustee has been advised in writing by any current or former holder or Beneficial Owner of a Bond that the Internal Revenue Service has issued a statutory notice of deficiency or similar notice to such current or former holder or Beneficial Owner which asserts in effect that the interest on the Bonds received by such current or former holder or Beneficial Owner is includable for federal income tax purposes in the gross income of such current or former holder or Beneficial Owner;

(c) the day on which the Academy or the Authority is advised in writing by the Commissioner or any District Director of the Internal Revenue Service that there has been issued a public or private ruling of the Internal Revenue Service or a technical advice memorandum issued by the national office of the Internal Revenue Service that the interest on the Bonds is includable for federal income tax purposes in the gross income of any current or former holder or Beneficial Owner of a Bond;

(d) the day on which the Academy or the Authority is advised in writing that a final determination, from which no further right of appeal exists, has been made by a court of competent jurisdiction in the United States of America in a proceeding with respect to which the Academy has been given written notice and an opportunity to participate and defend that the interest on the Bonds is includable for federal income tax purposes in the gross income of any current or former holder or Beneficial Owner of a Bond; or

(e) the date specified in a written opinion to the Academy from Bond Counsel as the day on which interest on the Bonds first became or will become includable for federal income tax purposes in the gross income of any current or former holder or Beneficial Owner of a Bond;

provided, however, no Determination of Taxability shall occur under subparagraph (a), (b) or (c) of this paragraph unless the Academy has been afforded the opportunity, at its expense, to contest any such conclusion and/or assessment after furnishing the Trustee and the Authority, within 30 days after the occurrence of an event described in subparagraph (a), (b) or (c) of this paragraph, with an opinion of Bond Counsel to the effect that there is a reasonable likelihood that the Academy will prevail in such contest, and, further, no Determination of Taxability shall occur until such contest, if made, has been finally determined. The Academy shall promptly notify the Trustee and the Authority of any event described in subparagraph (a), (c), (d) or (e) of this paragraph and shall further promptly notify the Trustee and the Authority of any final determination if the Academy has contested under subparagraph (a), (b) or (c) of this paragraph. The Academy shall be deemed to have been afforded the opportunity to contest the occurrence of a Determination of Taxability if it shall have been permitted to commence and maintain any action in the name of any current or former holder or Beneficial Owner of a Bond to judgment and through any appeals therefrom or other proceedings related thereto.

**“Earnings”** shall mean investment income consisting only of such interest and dividends derived from investment of moneys deposited in the Authority Funded Reserve Account of the Reserve Fund.

**“Eligible Investments”** shall mean such of the following as shall mature, or shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when the moneys will be required for the purposes intended:

(A) with respect to all funds and accounts other than the Authority Funded Reserve Account:

(a) Government Obligations;

(b) Any bonds or other obligations of any state of the United States of America or of any local governmental unit of any state which (a) are rated at the time of purchase in the highest rating category by Standard & Poor’s Ratings Services based on an escrow, (b) are not callable unless irrevocable instructions have been given to the trustee of such bonds to give due notice of redemption and to call such bonds for

redemption on the date(s) specified in such instructions, and (c) are secured by cash and/or Government Obligations;

(c) Direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided such obligations are rated at the time of purchase in either of the two highest rating categories by Standard & Poor's Ratings Services;

(d) Obligations of any state of the United States of America or any local governmental unit of any such state which shall be rated at the time of purchase in the highest rating category by Standard & Poor's Ratings Services;

(e) Certificates that evidence ownership of the right to payments of principal or interest on the obligations described in clause (i), provided that (a) such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a successor Trustee under Section 8.04 of this Indenture; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying Government Obligations; and (c) the underlying Government Obligations are held in a special account separate from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated;

(f) Certificates of deposit, whether negotiable or nonnegotiable, and banker's acceptances of any bank in the United States whose deposits are insured by the Federal Deposit Insurance Corporation or its successor, or any savings and loan association in the United States whose deposits are insured by the Federal Deposit Insurance Corporation or its successor, provided that such certificate of deposit or banker's acceptance is from a bank or from a savings and loan association having a combined capital and surplus aggregating at least Fifty Million Dollars (\$50,000,000) provided further that such certificate of deposit or banker's acceptance is secured by Government Obligations with a market value equal to the principal amount of such certificate of deposit or banker's acceptance over the amount guaranteed by the Federal Deposit Insurance Corporation or its successor, and provided further that such certificate of deposit or banker's acceptance is rated at least A-1+ by Standard & Poor's Ratings Services at the time of purchase and has a maturity of not more than 365 days;

(g) U.S. dollar denominated deposit accounts, federal funds with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by Standard & Poor's and "P-1" by Moody's and maturing no more than 360 days after the date of purchase, provided such investments are permitted by 1855 PA 105, as amended. (Ratings on holding companies are not considered as the rating of the bank). The Trustee may conclusively rely upon the Authority's instructions as to compliance with such act;

(h) Commercial paper of a United States corporation or finance company, other than that issued by bank holding companies, rated at the date of investment in the highest rating category by Standard & Poor's Ratings Services;

(i) to the extent approved by the State Treasurer, debentures or notes issued by any of the following Federal agencies: Bank for Cooperatives, Federal Intermediate Credit Bank, Federal Loan Bank, Export-Import Bank of the United States, Government National Mortgage Association or Federal Land Bank (including participation certificates issued by such Associations) and all other obligations issued or in the opinion of the Attorney General of the United States unconditionally guaranteed as to principal and interest by any agency or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by the Congress, and

(j) Securities of, or other interests in, a no-load, open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. §§80a-1 to 80a-64 (including those for which the Trustee or an affiliate performs services for a fee, whether as a custodian, transfer agent, investment advisor or otherwise), so long as the portfolio of the investment company or investment trust is limited to (i) United States government obligations and repurchase agreements fully collateralized by United States government obligations and the investment company or investment trust takes delivery of the collateral for any repurchase agreement either directly or through an authorized custodian or (ii) securities of, or other investments in, an investment company or investment trust which meets the foregoing requirements, and is rated at least AA+ or AA+G by Standard & Poor's Ratings Services; and

(B) with respect to the Authority Funded Reserve Account:

(a) Obligations issued or guaranteed by the United States Government;

(b) Obligations of instrumentalities or agencies of the United States or government-sponsored enterprises;

(c) Obligations issued by or guaranteed by any state, provided such obligations are rated in the two highest rating categories of a Rating Agency;

(d) Commercial paper, repurchase agreements, guaranteed investment contracts or other similar instruments issued by corporations that are organized and operating within the United States having assets in excess of \$500 million and having a short-term rating in the highest rating category of a Rating Agency and a long-term rating in one of the two highest rating categories;

(e) Money market funds that invest solely in United States Government securities or in the United States agency securities from issuers under categories (a) through (d) of this section;

(f) Certificates of deposit (with no more than \$100,000 purchased from a single financial institution) that are fully insured by the Federal Deposit Insurance Corporation, including certificates of deposit acquired through the Certificate of Deposit Account Registry Service that meet these criteria; and

(g) Such other investment securities as the Secretary of the United States Department of Education may determine comply with the statutory provisions and terms of the Credit Enhancement for Charter School Facilities Program or its successor program. The Trustee may conclusively rely on a written certificate of the Authority as to the eligibility of such additional investment options.

Ratings of Eligible Investments referred to herein shall be determined at the time of purchase of such Eligible Investments and without regard to ratings subcategories. The Trustee shall have no responsibility to monitor the ratings of Eligible Investments after the initial purchase of such Eligible Investments.

**“Enabling Legislation”** shall mean Executive Order No. 2002-3, compiled at §12.192 of the Michigan Compiled Laws, the Shared Credit Rating Act, Act No. 227 of the Public Acts of 1985 of the State, as amended, and the Michigan Strategic Fund Act, Act No. 270 of the Public Acts of 1984 of the State, as amended.

**“Environmental Indemnity Agreement”** means the Environmental Indemnity Agreement dated as of December 1, 2007 entered into by the Academy in favor of the Trustee.

**“Event of Default”** means any of the events specified in Section 6.01 hereof.

**“Financing Agreement”** means the Financing Agreement dated as of December 1, 2007, between the Authority and the Academy, as the same may be amended or supplemented from time to time as permitted thereby.

**“Government Obligations”** means (i) direct obligations of the United States of America (including obligations issued or held in book-entry form), (ii) obligations and timely payment of and interest on which are fully guaranteed by the United States of America, (iii) certificates which evidence ownership of the right to the payment of the principal of and interest on obligations described in clauses (i) and (ii) provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee in a special account separate from the general assets of such custodian, and (iv) municipal obligations the timely payment of the principal and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clause (i), (ii) or (iii); provided such obligations are not subject to call by the obligor for redemption prior to maturity, have been called for redemption prior to maturity or, if subject to call by the obligor for redemption prior to maturity, such right to call the obligation for redemption prior to maturity has been waived; provided, however, Government Obligations shall not include any investment which is prohibited or not permitted by the Enabling Legislation.

**“Grant Funds”** means funds obtained by the Authority from a grant obtained from the United States Department of Education which the Authority has determined to use to fund the Authority Funded Reserve Account of the Reserve Fund in the initial amount of \$316,900.

**“Indenture”** means this Trust Indenture, as amended or supplemented from time to time as permitted hereby.

**“Interest Payment Date”** means each June 1, and December 1 commencing June 1, 2008.

**“Investment Agreement”** means any agreement for the investment of funds held under the terms of this Indenture which is authorized by law, which has been approved by an authorized officer of the Authority.

**“Investment Income”** means the earnings and profits derived from the investment of moneys in the Project Fund, the Academy Funded Reserve Account of the Reserve Fund and Bond Fund pursuant to ARTICLE IV.

**“Issue Date”** means December 20, 2007, the date the Bonds are issued.

**“Letter of Representations”** means the blanket agreements of the Authority and the Trustee to comply with the operational arrangements of The Depository Trust Company and any similar agreements with respect to a successor Depository.

**“Mortgage”** means the Future Advance Mortgage dated December 1, 2007 from the Academy in favor of the Trustee with respect to the Project property.

**“Municipal Obligation”** means the School Building and Site Bond, Series 2007, of the Academy dated December 20, 2007.

**“Outstanding”**, when used with reference to the Bonds at any date as of which the amount of Outstanding Bonds is to be determined, means all Bonds which have been authenticated and delivered by the Trustee hereunder, except:

(a) Bonds canceled or delivered for cancellation at or prior to such date;

(b) Bonds, or portions thereof, for the payment or prepayment of which funds shall have been deposited with the Trustee (whether on or prior to the maturity or prepayment date of any such Bonds); provided, however that if such Bonds are to be redeemed prior to maturity thereof, notice of such prepayment shall have been given or arrangements satisfactory to the Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Trustee shall have been filed with the Trustee;

(c) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to ARTICLE II hereof; and

(d) For purposes of any consent, request, demand, authorization, direction, notice, waiver or other action to be taken by the holders of a specified percentage of Outstanding Bonds hereunder, all Bonds held by or for the account of the Authority or the Academy, except that for purposes of any such consent, request, demand, authorization, direction, notice, waiver or action the Trustee shall be obligated to

consider as not being Outstanding only Bonds of which the Trustee has actual notice to be so held.

**“Participant” or “Participants”** means securities brokers and dealers, banks, trust companies and clearing corporations which participate in the Depository with respect to the Bonds.

**“Person”** means any natural person, firm, partnership, association, limited liability company, corporation, or public body.

**“Project”** means (i) the acquisition of land and (ii) the acquisition of an existing school facility, all to be financed with the proceeds of the Municipal Obligation, and all as more fully described in the Financing Agreement.

**“Project Fund”** means the fund created by Section 4.03 of this Indenture.

**“Rating Agency”** means Moody’s Investors Service and/or Standard & Poor’s Ratings Service and/or Fitch Ratings or their successors and assigns, according to which of such rating agencies then rates the Bonds; and provided that if neither of such rating agencies then rates the Bonds, the term “Rating Agency” shall be deemed to refer to any nationally recognized securities rating agency.

**“Record Date”** means with respect to each Interest Payment Date, the Trustee’s close of business on the fifteenth day of the calendar month next preceding such Interest Payment Date, regardless whether such day is a Business Day.

**“Registered Owner”** means the person or persons in whose name or names a Bond is registered on the registration books of the Authority maintained by the Trustee for that purpose in accordance with the terms of this Indenture.

**“Reserve Fund”** means the fund established pursuant to Section 4.02 of this Indenture and which shall be entitled “Michigan Public Educational Facilities Authority Debt Service Reserve Fund 2007 American Montessori Academy Project”.

**“Reserve Fund Payments”** means all payments required of the Academy to replenish any deficiency in the Reserve Fund.

**“Reserve Fund Requirement”** means an amount equal to the least of (i) the maximum annual principal and interest requirements on the Series 2007 Bonds and any Additional Bonds for the then-current or any succeeding Bond Year, (ii) 125% of the average annual principal and interest requirements on the Series 2007 Bonds and any Additional Bonds, or (iii) 10% of the original principal amount of the Series 2007 Bonds and any Additional Bonds (net of original issue discount), determined at the time of initial issuance of the Series 2007 Bonds and any Additional Bonds and on the first day of each Academy Fiscal Year thereafter while any Series 2007 Bonds or Additional Bonds are Outstanding. The Reserve Fund Requirement for the Reserve Fund may be satisfied by delivery to the Trustee of a Reserve Fund Security Instrument.

**“Reserve Fund Security Instrument”** means a letter a credit, line of credit, policy of insurance, surety bond or similar instrument which will provide for the payment of all or part of the amounts required to be disbursed from a Reserve Fund; provided that the Reserve Fund Security Instrument shall not result in a reduction of any rating on the Bonds.

**“Revenue Account”** means the account by that name established within the Bond Fund pursuant to Section 4.01 of this Indenture.

**“Security”** means the revenues (including Academy Repayments), funds, rights and interests specified in Section 3.01 of this Indenture.

**“Series 2007 Bonds”** means the \$3,900,000 Michigan Public Educational Facilities Authority Limited Obligation Revenue Bonds (American Montessori Academy Project), Series 2007.

**“State”** means the State of Michigan.

**“State Aid Intercept Account”** means the account by that name established within the Bond Fund pursuant to Section 4.01 of this Indenture.

**“Trustee”** means The Bank of New York Trust Company, N.A., a national banking association, acting in its capacity as the trustee under this Indenture, and any permitted successor trustee under ARTICLE VII of this Indenture.

**“Unassigned Rights”** means the right of the Authority to make all determinations and approvals and receive all notices accorded to it under the Financing Agreement and to enforce in its name and for its own benefit the provisions of Sections 407, 502 and 903 of the Financing Agreement with respect to the Authority Fees and expenses, and indemnity payments as the interests of the Authority and related persons shall appear.

**“Underwriter”** means Fifth Third Securities, Inc.

## ARTICLE II

### THE BONDS

#### Section 2.01. Authorized Amount of Bonds.

(a) No Bonds may be issued under the provisions of this Indenture except in accordance with this Article. Pursuant to the Bond Resolution, the total principal amount of Series 2007 Bonds that may be issued and Outstanding hereunder is expressly limited to \$5,500,000, subject to the provisions of Section 2.16 hereof. The Bonds are issued for the purpose of enabling the Authority to purchase the Academy’s Municipal Obligation. The Municipal Obligation shall be in Fully Marketable Form and otherwise satisfactory to the Authority. The proceeds of the Authority’s purchase of the Municipal Obligation shall be used to make a deposit (i) to the Project Fund for the purpose of paying the Costs of the Project, (including costs of issuance), (ii) to the Academy Funded Reserve Account of the Reserve Fund in the amount of the Academy Reserve Fund Requirement in the amount of \$ 0.00, and (iii) to

the Bond Fund to pay any accrued interest on the Bonds. The Authority shall deposit in the Authority Funded Reserve Account of the Reserve Fund, an amount equal to the Authority Contribution.

#### **Section 2.02. Issuance of Bonds.**

The Series 2007 Bonds (i) shall be designated the “Michigan Public Educational Facilities Authority Limited Obligation Revenue Bonds (American Montessori Academy Project), Series 2007”, (ii) shall be dated the Issue Date, (iii) shall bear interest from the Issue Date at the rates provided in Exhibit B hereto until the Authority’s obligation with respect to payment of the principal is discharged, computed on a 360-day year of twelve 30-day months), and (iv) shall mature at the times and in the principal amounts provided in Exhibit B hereto.

The Series 2007 Bonds shall be issued as registered bonds without coupons and shall be issued in Authorized Denominations. The Series 2007 Bonds shall be numbered consecutively from R-1 upwards bearing numbers not then contemporaneously outstanding (in order of issuance) according to the records of the Trustee.

The principal of and the redemption premium, if any, and the interest on the Bonds shall be payable in lawful money of the United States of America. The principal of and redemption premium, if any, on the Series 2007 Bonds shall be payable at the principal corporate trust or other designated office of the Trustee. The interest on the Series 2007 Bonds shall be paid by check or draft of the Trustee mailed to the Persons in whose names the Series 2007 Bonds are registered on the Bond Register at the close of business on the Record Date next preceding each Interest Payment Date; provided, however, any registered holder of Series 2007 Bonds in the aggregate principal amount of \$1,000,000 or more as of the close of business on the Record Date preceding any Interest Payment Date may, by prior written instructions filed with the Trustee on or before the second Business Day preceding such Record Date (which instructions shall remain in effect until revoked by subsequent written instructions), instruct that interest payments for any period be made by wire transfer to any bank located in the continental United States.

If any payment of interest or principal or redemption premium on the Series 2007 Bonds is due on a date not a Business Day, payment shall be made on the next succeeding Business Day with the same force and effect as if made on the date which is fixed for such payment, and no interest shall accrue on such amount for the period after such due date.

The provisions of the Series 2007 Bonds shall control to the extent of any conflict with the provisions hereof.

#### **Section 2.03. Execution; Limited Obligation.**

The Series 2007 Bonds shall be executed on behalf of the Authority with the manual or facsimile signature of one of its members or one of its authorized officers. All authorized facsimile signatures shall have the same force and effect as if manually signed. In case any official of the Authority whose signature or facsimile signature shall appear on the Series 2007 Bonds shall cease to be such official before the delivery of such Series 2007 Bonds, such signature or facsimile signature shall nevertheless be valid and sufficient for all purposes, the same as if such official had remained in office until delivery. The Series 2007 Bonds may be

signed on behalf of the Authority by such persons who, at the time of the execution of such Series 2007 Bonds, are duly authorized or hold the appropriate office of the Authority, although on the date of the Series 2007 Bonds such persons were not so authorized or did not hold such offices.

(a) The Bonds, together with interest thereon and redemption premium with respect thereto, are limited obligations of the Authority secured by the Financing Agreement and, if applicable, the Reserve Fund, are and shall always be payable solely from the revenues and income derived from the Financing Agreement (except to the extent paid out of moneys attributable to proceeds of the Bonds or the income from the temporary investment thereof), are and shall always be a valid claim of the holders thereof only against the revenues and income derived from the Financing Agreement and from other instruments assigned to or held by the Trustee, which revenues and income shall be used for no other purpose than to pay the principal installments of, redemption premium, if any, and interest on the Bonds, except as may be expressly authorized otherwise in this Indenture or the Financing Agreement. The Bonds and the obligation to pay interest thereon and redemption premiums with respect thereto do not now and shall never constitute an indebtedness or an obligation of the Authority or the State of Michigan, within the purview of any constitutional limitation or provision, or a charge against the general credit or taxing powers, if any, of either of them, but shall be secured by the Security, and shall be payable solely from the revenues and income derived from the Financing Agreement. No owner of the Bonds shall have the right to compel the exercise of the taxing power, if any, of the State of Michigan to pay any principal installment of, premium, if any, or interest on the Bonds. The Authority has no taxing power.

#### **Section 2.04. Certificate of Authentication.**

No Series 2007 Bonds shall be secured hereby or entitled to the benefit hereof or shall be or become valid or obligatory for any purpose unless there shall be endorsed thereon a certificate of authentication, substantially in the form as set forth in the form of Series 2007 Bond attached hereto as Exhibit A, executed by an authorized officer of the Trustee; and such certificate on any Bond issued by the Authority shall be conclusive evidence and the only competent evidence that it has been duly authenticated and delivered hereunder.

#### **Section 2.05. Form of Bonds.**

The Series 2007 Bonds shall be substantially in the form attached as Exhibit A with such changes as may be necessary or appropriate to conform to any applicable rules and regulations of any governmental authority or of any securities exchange on which the Series 2007 Bonds may be listed or any usage or requirement of law or practice with respect thereto.

#### **Section 2.06. Delivery of Series 2007 Bonds.**

Upon the execution and delivery hereof, the Authority shall execute the Series 2007 Bonds and deliver them to the Trustee, and the Trustee shall authenticate the Series 2007 Bonds and deliver them to such purchaser or purchasers as shall be directed by the Authority as hereinafter in this Section provided.

Prior to or simultaneously with the authentication and delivery of the Series 2007 Bonds by the Trustee, there shall be filed with the Trustee:

(a) A copy, certified by an authorized officer of the Authority, of all resolutions adopted and proceedings had by the Authority authorizing the issuance of the Series 2007 Bonds, including the Bond Resolution;

(b) An original executed counterpart of this Indenture, the Financing Agreement, the Bond Purchase Agreement and the Mortgage;

(c) An original executed counterpart of the nonarbitrage and tax compliance certificate of the Academy relating to the Series 2007 Bonds dated the Issue Date, in form and substance satisfactory to Bond Counsel and the Attorney General of the State of Michigan;

(d) Closing certificates of the Academy and the Authority in form and substance satisfactory to Bond Counsel and the Attorney General of the State of Michigan;

(e) A copy of completed IRS Form 8038-G to be filed by or on behalf of the Authority pursuant to Section 149(e) of the Code;

(f) An original executed counterpart of the nonarbitrage certificate of the Authority establishing its reasonable expectations to the effect that the Bonds will not be "arbitrage bonds" within the meaning of Section 148(a) of the Code;

(g) An opinion of Bond Counsel addressed to the Authority and the Trustee and an opinion of the Attorney General of the State of Michigan addressed to the Authority to the effect that the interest on the Bonds is excludable from gross income of the holders thereof for federal income tax purposes (other than any interest which may be includable as a preference item or adjustment item in computing any minimum tax) and that this Indenture and the Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding agreements of the Authority;

(h) An opinion of Counsel for the Academy addressed to the Authority and the Trustee to the effect that the Financing Agreement and the Bond Purchase Agreement have been duly authorized, executed and delivered by the Academy and are legal, valid and binding agreements of the Academy, together with such additional matters as may be requested by Bond Counsel or the Attorney General of the State of Michigan;

(i) A request and authorization to the Trustee on behalf of the Authority and signed by an authorized officer of the Authority directing the Trustee to authenticate and deliver the Bonds in such specified denominations as permitted herein to the Underwriter upon payment to the Trustee, but for the account of the Authority, of the aggregate principal amount of the Bonds, plus accrued interest, if any;

(j) Evidence satisfactory to the Trustee that the Authority and the Trustee have delivered executed Letters of Representations to the Depository;

(k) Evidence satisfactory to the Trustee that there has been paid into the Authority Funded Reserve Fund any amounts required by this Indenture; and

(l) Such other documents, opinions of Counsel and certificates as the Trustee, the Attorney General or Bond Counsel may require or as may be required by the Bond Purchase Agreement.

Upon receipt of the foregoing, the Trustee shall authenticate and deliver the Bonds as provided above.

#### **Section 2.07. Mutilated, Lost, Stolen or Destroyed Bonds.**

If any Bond is mutilated, lost, stolen or destroyed, the Authority may execute and the Trustee may authenticate and deliver a new Bond of the same maturity, interest rate, principal amount and tenor in lieu of and in substitution for the Bond mutilated, lost, stolen or destroyed; provided that, in the case of any mutilated Bond, such mutilated Bond shall first be surrendered to the Trustee, and in the case of any lost, stolen or destroyed Bond, there shall be first furnished to the Authority and the Trustee evidence satisfactory to each of them of the ownership of such Bond and of such loss, theft or destruction, together with indemnity satisfactory to the Trustee and the Authority and compliance with such other reasonable requirements as the Authority and Trustee may prescribe. The replacement of any Bond under this Section shall be in accordance with Michigan Compiled Laws Annotated Section 129.131 et. seq. If any such Bond shall have matured or a redemption date pertaining thereto shall have passed, instead of issuing a new Bond the Authority may pay the same without surrender thereof. The Authority and the Trustee may charge the holder of such Bond with their reasonable fees and expenses in this connection.

#### **Section 2.08. Exchangeability and Transfer of Bonds; Persons Treated as Owners.**

The Authority shall cause the Bond Register to be kept by the Trustee, which is hereby constituted and appointed the bond registrar for the Bonds.

Any holder of a Bond, in person or by his duly authorized attorney, may transfer title to his Bond on the Bond Register, upon surrender thereof at the designated corporate trust office of the Trustee, together with a written instrument of transfer (in substantially the form of assignment attached to the Bond) executed by the holder or his duly authorized attorney. Upon surrender for registration of transfer of any Bond, the Authority shall execute and the Trustee shall authenticate and deliver in the name of the transferee or transferees a new Bond or Bonds of the same aggregate principal amount and tenor as the Bond surrendered and of any Authorized Denomination.

Bonds may be exchanged upon surrender thereof at the designated corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee executed by the Bondholder or his attorney duly authorized in writing, for an equal aggregate principal amount of Bonds of the same aggregate principal amount and tenor as the Bonds being exchanged and of any Authorized Denomination. The Authority shall execute and the Trustee shall authenticate and deliver Bonds which the Bondholder making the exchange is entitled to receive, bearing numbers not contemporaneously then outstanding.

Such registrations of transfers or exchanges of Bonds shall be without charge to the holders of such Bonds, but any taxes or other governmental charges required to be paid with respect to the same shall be paid by the holder of the Bond requesting such registration of transfer or exchange as a condition precedent to the exercise of such privilege. Any service charge made by the Trustee for any such registration, transfer or exchange shall be paid by the Academy.

The Trustee shall not register any transfer of any Bond (or portion thereof) after notice calling such Bond (or portion thereof) for redemption or partial redemption has been given unless the holder delivers to the Trustee a written statement acknowledging that such Bond has been called for redemption and the date of such redemption.

The Person in whose name any Bond is registered on the Bond Register shall be deemed and regarded as the absolute owner thereof for all purposes, except that payment of or on account of either principal, premium, if any, or interest shall be made only to or upon the order of the holder of record as of the Record Date or its duly authorized attorney, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

So long as the Bonds are held in book-entry form, the Authority shall execute and the Trustee shall authenticate a Bond to be held by the Depository, which (i) shall be denominated in an amount equal to the aggregate principal amount of Bonds to be held by the Depository (provided that, unless such Bond is being issued on the Issue Date, the Trustee has received a like aggregate principal amount of Bonds for transfer in accordance with this Section 2.08), (ii) shall be registered in the name of the Depository or its nominee in accordance with this Section 2.08, (iii) shall be delivered by the Trustee to the Depository or pursuant to the Depository's instructions, and (iv) shall bear a legend substantially to the effect that unless the Bond is presented by an authorized representative of the Depository to the Authority or its agent for registration of transfer, exchange or payment, any transfer, exchange, pledge or other use for value or otherwise is wrongful.

All Bonds issued upon any transfer or exchange of Bonds shall be valid and binding limited obligations of the Authority, evidencing the same debt, and entitled to the same security and benefits under this Indenture, as the Bonds surrendered upon such transfer or exchange.

In executing any Bond upon any exchange or transfer provided for in this Section, the Authority may rely conclusively on a representation of the Trustee that such execution is required.

#### **Section 2.09. Cancellation.**

Matured Bonds and Bonds redeemed prior to maturity (as provided in Section 2.11) delivered to the Trustee shall be canceled. The Trustee shall cremate or other destroy canceled Bonds and shall not reissue such Bonds and shall deliver a certificate or other destruction to the Authority and the Academy. If the Trustee for its own account or the Academy shall acquire any of the Bonds, such acquisition shall not operate as a redemption or satisfaction of the

indebtedness represented by such Bonds unless and until the same are delivered to the Trustee for cancellation.

#### **Section 2.10. Ratably Secured.**

All Bonds issued hereunder are and are to be, to the extent provided in this Indenture, equally and ratably secured by this Indenture without preference, priority or distinction on account of the actual time or times of the authentication or delivery or maturity of the Bonds so that, subject as aforesaid, all Bonds at any time Outstanding hereunder shall have the same right, lien and preference under and by virtue of this Indenture and shall all be equally and ratably secured hereby with like effect as if they had all been executed, authenticated and delivered simultaneously on the date hereof, whether the same, or any of them, shall actually be disposed of at such date, or some future date, except with respect to the Reserve Fund. The Reserve Fund secures the Series 2007 Bonds and any Additional Bonds issued hereunder.

#### **Section 2.11. Redemption of Bonds.**

(a) **Optional Redemption.** The Series 2007 Bonds are subject to optional redemption prior to maturity at the option of the Authority upon the direction of the Academy, all as provided in the form of Series 2007 Bonds set forth in Exhibit A upon notice as provided in the form of Series 2007 Bonds.

(b) **Mandatory and Extraordinary Redemption.** The Series 2007 Bonds which are term bonds shall be subject to mandatory redemption as provided in the form of Series 2007 Bonds, and shall be redeemed prior to maturity in accordance with the redemption requirements set forth in Exhibit B attached hereto.

#### **Section 2.12. Partial Redemption of Bonds.**

If less than all the Outstanding Bonds are called for redemption, the Trustee shall select, or arrange for the selection of, the Bonds to be redeemed by lot, in such manner as it shall in its discretion determine; provided that any such Bonds selected for redemption shall be in Authorized Denominations and no Bond may be redeemed in part if the principal amount to be outstanding following such partial redemption is not an Authorized Denomination. If less than the principal amount of a Bond is called for redemption, the Authority shall execute and the Trustee shall authenticate and deliver, upon surrender of such Bond, without charge to the holder thereof, in exchange for the unredeemed principal amount of such Bond, at the option of such holder, Bonds in any of the Authorized Denominations.

#### **Section 2.13. Notice of Redemption.**

Notice of redemption shall be mailed by the Trustee by first class mail at least 30 days but not more than 45 days before any redemption date to the Registered Owner of each Bond to be redeemed in whole or in part at its last address appearing on the Bond Register; provided, however, that failure to give such notice by mailing, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Bond, or portion thereof with respect to which no such failure or defect has occurred. In addition, the Trustee may give such other notice or notices as may be recommended in releases, letters, pronouncements or other writings of the

Securities and Exchange Commission and the Municipal Securities Rulemaking Board. No defect in or delay or failure in giving any recommended notice described in the preceding sentence shall in any manner affect the notice of redemption described in the first sentence of this Section 2.13. Any notice mailed as provided in this Section 2.13 shall be conclusively presumed to have been duly given, whether or not the Bondholder receives the notice.

All notices of redemption shall state:

- (a) the redemption date,
- (b) the redemption price,
- (c) the identification, including complete designation and issue date of the series of Bonds of which such Bonds are a part and the CUSIP number (and in the case of partial redemption, the respective principal amounts), interest rate and maturity date of the Bonds to be redeemed,
- (d) that on the redemption date the redemption price will become due and payable upon each such Bond, and that interest thereon shall cease to accrue from and after such date; and
- (e) The name and address of the Trustee for such Bonds, including the name and telephone number of a contact person and the place where such Bonds are to be surrendered for payment of the redemption price.

All Bonds so called for redemption will cease to bear interest on the specified date set for redemption, provided moneys for their redemption have been duly deposited with the Trustee. Thereafter, the holders of such Bonds called for redemption shall have no rights in respect thereof except to receive payment of the redemption price from the Trustee and a new Bond in an Authorized Denomination for any portion not redeemed.

#### **Section 2.14. Book-Entry Only Registration of the Bonds.**

- (a) Except as provided in subparagraph (c) of this Section 2.14, the Registered Owner of all of the Bonds shall be, and the Bonds shall be registered in the name of, Cede & Co. ("Cede"), as nominee of the Depository. Payment of interest on any Bond, as applicable, shall be made in accordance herewith for the account of Cede on each Interest Payment Date at the address indicated for Cede in the Bond Register.
- (b) The Bonds shall be initially issued in the form of a single fully registered Bond in the aggregate principal amount of the Bonds. Upon initial issuance, the ownership of each such Bond shall be registered on the Bond Register in the name of Cede, as nominee of the Depository. With respect to the Bonds so registered in the name of Cede, the Authority, the Academy and the Trustee, shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, Cede or any Participant or any nominee of a Beneficial Owner with respect to any beneficial ownership interest in the Bonds, (ii) the delivery to any Participant, Beneficial Owner or other person, other than the Depository, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any

Participant, Beneficial Owner or other person, other than Cede, as nominee of the Depository, of any amount with respect to the principal or redemption price of, or interest on, the Bonds. The Authority, the Academy and the Trustee may treat and deem Cede, as nominee of the Depository, as the absolute owner of each Bond for all purposes whatsoever, including (but not limited to) (i) payment of the principal or redemption price of, and interest on, each such Bond, (ii) giving notices of redemption and other matters with respect to such Bonds and (iii) registering transfers with respect to such Bonds. The Trustee shall pay the principal or redemption price of, and interest on, all Bonds only to or upon the order of Cede, and all such payments shall be valid and effective to fully satisfy and discharge the Authority's obligations with respect to such principal redemption price and interest, to the extent of the sum or sums so paid. So long as the Bonds are book-entry-only, no person other than the Depository shall receive a Bond evidencing the obligation of the Authority to make payments of principal of and interest on, the Bonds pursuant to this Indenture. Upon delivery by the Depository to the Trustee of written notice to the effect that the Depository has determined to substitute a new nominee in place of Cede, and subject to the transfer provisions of this Indenture, the word "Cede" herein shall refer to such new nominee of the Depository; provided that, notwithstanding any provision of this Indenture to the contrary, until the termination of the book-entry-only system, the Bonds may be transferred in whole, but not in part, only to a nominee of the Depository, or by a nominee of the Depository to the Depository or any nominee thereof.

- (c) (1) The Depository may determine to discontinue providing its services with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee and discharging its responsibilities with respect thereto under applicable law.
- (2) The Authority, at the sole discretion and direction of the Academy and without the consent of any other person, may terminate the services of the Depository with respect to the Bonds if the Academy determines that the continuation of the system of book-entry-only transfer through the Depository is not in the best interests of the Beneficial Owners of the Bonds or is burdensome to the Authority or the Academy.

(3) Upon the termination of the services of the Depository with respect to the Bonds pursuant to subsection (c)(1) or (2) hereof, the Bonds shall no longer be restricted to being registered on the Bond Register in the name of Cede as nominee of the Depository. In such event, the Authority shall issue and the Trustee shall transfer and exchange Bond certificates of like principal amount, in Authorized Denominations to the Participants or the identifiable Beneficial Owners (as identified by the Depository or the Participants) in replacement of such Beneficial Owners' beneficial interests in the Bonds. Notwithstanding the preceding sentence, if the Academy designates a successor Depository, the Authority shall issue and the Trustee shall transfer and exchange a Bond certificate, in such name as is directed by the successor Depository, in the amount of Bonds then Outstanding and the Trustee shall take such other action as is necessary so that the beneficial ownership interests of the Beneficial Owners are properly reflected on the records of the successor Depository and its Participants. In such event, references herein to "Cede" shall be deemed to refer to the successor Depository, or its nominee, as the context requires.

- (d) The Authority and the Trustee may conclusively rely on (i) a certificate of the Depository as to the identity of the Participants in the book-entry only system, and (ii) a



certificate of such Participants as to the identity of, and the respective principal amounts of Bonds beneficially owned by, the Beneficial Owners.

(e) Whenever, during the term of the Bonds, Beneficial Ownership thereof is determined by a book entry at the Depository, the requirements in this Indenture of holding, delivering or transferring Bonds shall be deemed modified to require the appropriate person to meet the requirements of the Depository as to registering or transferring the book entry to produce the same effect.

(f) Notwithstanding anything in this Indenture to the contrary, the Authority and the Trustee hereby agree as follows with respect to the Bonds, if and to the extent any Bond is registered in the name of Cede as nominee of the Depository: (i) the Trustee shall give the Depository all special notices required by the Letter of Representations at the times, in the forms and by the means required by the Letter of Representations; (ii) the Trustee shall make payments to Cede at the times and by the means specified in the Letter of Representations; (iii) Cede shall not be required to surrender Bonds which have been partially paid or prepaid to the extent permitted by the Letter of Representations; and (iv) the Trustee shall set a special record date (and shall notify the registered owners of the Bonds thereof in writing) prior to soliciting any Bondholder consent or vote, such notice to be given not less than 15 calendar days prior to such record date (any Bond transferred by a registered owner subsequent to the establishment of the special record date and prior to obtaining such consent or vote shall have attached to it a copy of the notice to Bondholders by the Trustee).

(g) NEITHER THE AUTHORITY, THE ACADEMY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE BONDS WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY THE DEPOSITORY OR ANY PARTICIPANT; (ii) THE PAYMENT BY THE DEPOSITORY TO ANY PARTICIPANT OR BY ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (iii) THE DELIVERY OF ANY NOTICE BY THE DEPOSITORY TO ANY PARTICIPANT OR BY ANY PARTICIPANT TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO BONDHOLDERS UNDER THE TERMS OF THIS INDENTURE; (iv) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (v) ANY OTHER ACTION TAKEN BY THE DEPOSITORY AS OWNER OF THE BONDS.

#### **Section 2.15. CUSIP Numbers.**

All payments of principal, premium and interest, whether by check or draft or wire transfer, shall be accompanied by the appropriate CUSIP number identification with appropriate dollar amounts for each CUSIP number.

#### **Section 2.16. Additional Bonds.**

The Authority reserves the right to issue Additional Bonds upon the request of the Academy with such approvals as required by the Enabling Legislation, without limit in one or

more series for the acquisition, construction and/or renovation and equipping of facilities to be used by the Academy and for such other purposes set forth in, and subject to the requirements, of the Financing Agreement and this Indenture. Additional Bonds shall be of the same priority as the Series 2007 Bonds and all Bonds issued under this Indenture shall be equally and ratably payable from and secured by the Security, but the Additional Bonds shall bear such dates and interest rates, have maturity dates and redemption dates and prices, and be issued at such prices as shall be approved in writing by the Authority and the Academy. No Additional Bonds shall be issued unless the following terms and conditions have been met:

(a) the Trustee has received a copy, duly certified by the Authority, of the resolution adopted by the Authority authorizing the issuance of such Additional Bonds and the execution and delivery of a supplemental indenture, supplementing and amending this Indenture, which supplemental indenture shall not require the approval of the Registered Owners of the Bonds Outstanding, providing the date, interest rates and maturities of such Additional Bonds, options and requirements for redemption prior to maturity with respect to such Additional Bonds, deposit of proceeds to the various funds and accounts, including the Reserve Fund, and such other terms as may be required by reason of the foregoing and which adopts the applicable provisions of this Indenture.

(b) the Trustee and the Authority have received an opinion of counsel to the Academy in form and substance acceptable to the Trustee, the Authority, Bond Counsel and the Attorney General of the State of Michigan.

(c) the Trustee has received a certificate of an Authorized Representative of the Academy to the effect that the Academy is not in default under the Financing Agreement, is not aware of any Events of Default under this Indenture and that such indebtedness may be issued under the Financing Agreement.

(d) the Trustee and the Authority have received an opinion of nationally recognized municipal bond counsel to the effect that (i) the issuance of such Additional Bonds will not affect adversely the exclusion from gross income for federal income tax purposes of interest on any Outstanding Bonds, and (ii) the Additional Bonds to be delivered will be valid and legal limited obligations of the Authority in accordance with their terms and will be secured hereunder equally and on a parity with all other Bonds at the time Outstanding hereunder as to the assignment and pledge of the Security to the payment of the Bonds;

(e) the Trustee has received original executed counterparts of the agreement supplementing and amending the Mortgage (if necessary), an agreement supplementing and amending the State Aid Agreement (if necessary), and the supplemental indenture supplementing and amending this Indenture;

(f) the Trustee has received a request and authorization to the Trustee on behalf of the Authority and signed by an Authorized Representative of the Authority to authenticate and deliver such Additional Bonds to the purchasers therein identified, upon payment to the Trustee, but for the account of the Authority, of a sum specified in such request and authorization, plus accrued interest thereon, if any, to the date of delivery;

(g) the Trustee will receive from the proceeds of the Additional Bonds or otherwise on the date of delivery of the Additional Bonds an amount equal to the additional Academy Reserve Fund Requirement for deposit into the Academy Funded Reserve Account of the Reserve Fund;

(h) the Trustee and the Authority have received an executed opinion of nationally recognized municipal bond counsel to the effect that (i) the Additional Bonds have been duly authorized, executed and delivered and constitute the binding limited obligations of the Authority, enforceable in accordance with their terms, subject to normal bankruptcy exceptions, and (ii) the interest on such Additional Bonds is excluded from gross income for federal income tax purposes (unless it is intended that such interest be taxable); and

(i) the Academy provides to the Trustee a certificate of an Authorized Representative of the Academy, to the effect that:

(1) The ratio of (a) 20% of the amount of State School Aid projected to be payable to the Academy by the State in any fiscal year to (b) the aggregate annual debt service in such fiscal year on the Bonds and any Additional Bonds proposed to be issued is not less than 1.1:1.0;

(2) The ratio of (a) 20% of the amount of State School Aid projected to be payable to the Academy by the State in any fiscal year to (b) the maximum aggregate annual debt service on the Bonds and any Additional Bonds proposed to be issued is not less than 1.1:1.0; and

(3) Pursuant to (1) and (2) above, *for purposes of computing future projections of State School Aid, such certificate shall use the expected total amount of State School Aid to be paid to the Academy for the Academy's current fiscal year computed using the number of students certified as of the September count date of the current fiscal year unless the Academy has received the approval of its Authorizing Body for a grade or facility expansion, in which case, the ratios may be calculated using the number of students certified as of the September count date of the current fiscal year plus the estimated enrollment for any approved grade or facility expansion.*

The provisions, covenants and agreements herein set forth to be performed by or on behalf of the Academy shall be for the equal benefit, protection and security of the Registered Owners of any and all of the Bonds, all of which, regardless of the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof except as expressly provided in this Indenture.

## ARTICLE III

### SECURITY; COVENANTS AND AGREEMENTS OF THE AUTHORITY

#### Section 3.01. Security.

The Bonds and the interest and any redemption premium thereon shall be a limited obligation of the Authority as provided in Section 2.03 hereof, and shall be secured by and payable only from the following:

(a) all Academy Repayments received by the Authority under the Financing Agreement and the Municipal Obligation, which Academy Repayments are to be paid directly to the Trustee and deposited in the Bond Fund;

(b) all moneys and securities in the Bond Fund, Reserve Fund and the Project Fund, including the proceeds of the Bonds pending disbursement thereof;

(c) all of the Authority's rights and interest in the Financing Agreement, except the Unassigned Rights;

(d) all of the proceeds of the foregoing, including without limitation, investments thereof and Investment Income; and

(e) the rights of the Trustee in and under the Future Advance Mortgage and the Environmental Indemnity Agreement from the Academy in favor of the Trustee with respect to the Project property.

The foregoing are collectively the "Security." In consideration of the purchase of the Series 2007 Bonds and to secure payment of the principal of, redemption premium, if any, and interest on the Series 2007 Bonds and any other cost or pecuniary liability of the Authority relating to the Series 2007 Bonds or any proceeding, document or certification incidental to the issuance of the Series 2007 Bonds, and to secure performance and observance of all covenants, terms and conditions upon which the Series 2007 Bonds are to be issued, including without limitation this Indenture, the Authority, without warranty, pursuant to law hereby conveys, assigns and pledges all of its right, title and interest in, and grants a security interest in, the Security to the Trustee, and its successors and assigns, in trust for the benefit of the Bondholders.

#### Section 3.02. Payment of Bonds and Performance of Covenants.

The Authority shall promptly pay, but only out of the Security, the principal of, redemption premium, if any, and interest on the Bonds at the place, on the dates and in the manner provided in the Bonds. The Authority shall promptly perform and observe all covenants, undertakings and obligations set forth herein, in the Financing Agreement or the Bonds on its part to be performed or observed. The Authority agrees that the Trustee in its name or in the name of the Authority may enforce against the Academy or any Person any rights of the Authority under or arising from the Bonds or the Financing Agreement whether or not the Authority is in default hereunder or under the Financing Agreement, but the Trustee shall not be deemed to have hereby assumed the obligations of the Authority under the Financing Agreement,

but rather shall have no obligations under the Financing Agreement except as specifically provided therein. The Authority shall fully cooperate with the Trustee in the enforcement by the Trustee of any such rights. At the request of the Trustee, the Authority, upon being indemnified to its satisfaction, shall take such actions as the Trustee shall reasonably request to enforce the rights of the Authority or the Trustee under or arising from the Bonds or the Financing Agreement.

### **Section 3.03. Authority.**

The Authority represents and warrants that (i) it is duly authorized under the Constitution and laws of the State to issue the Bonds, and to execute, deliver and perform the terms of this Indenture; (ii) all action on its part for the issuance of the Bonds and this Indenture have been duly taken; (iii) the Bonds upon issuance and authentication and this Indenture upon delivery, shall be valid and enforceable against the Authority in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or other similar laws affecting creditors' rights and by general principles of equity; (iv) it has not heretofore conveyed, assigned, pledged, granted a security interest in or otherwise disposed of the Security; (v) it has not received any payments under the Financing Agreement and the entire principal balance remains outstanding; (vi) it has no knowledge of any right of set-off, defense or counterclaim to payment or performance of the terms or conditions of the Financing Agreement, and (vii) the execution, delivery and performance of this Indenture are not in contravention of law or any agreement, instrument, indenture or other undertaking to which it is a party or by which it is bound.

### **Section 3.04. No Litigation.**

The Authority represents and warrants that (i) no litigation or administrative action of any nature has been served upon the Authority for the purpose of restraining or enjoining the issuance or delivery of the Bonds or the execution and delivery of this Indenture or the Financing Agreement or in any manner questioning the proceedings or authority under which they have occurred, or affecting their validity or its existence or authority of its present officers; (ii) no authority or proceeding for the issuance of the Bonds or for the payment or security thereof has been repealed, revoked or rescinded; (iii) no petition seeking to initiate any resolution or other measure affecting the same or the proceedings therefore has been filed and (iv) to the best of the knowledge of the officers of the Authority executing this Indenture, none of the foregoing actions is threatened.

### **Section 3.05. Further Assurances.**

The Authority covenants that it will cooperate to the extent necessary with the Academy and the Trustee in defenses of the Security against the claims and demands of all Persons, and will do, execute, acknowledge and deliver or cause to be done, such indentures supplemental hereto and such further acts, instruments and transfers as the Trustee may reasonably require for the better pledging of the Security. The Authority shall not cause or permit to exist any amendment, modification, supplement, waiver or consent with respect to the Financing Agreement without the prior written consent of the Trustee, which consent shall be governed by ARTICLE VII of this Indenture.

### **Section 3.06. No Other Encumbrances.**

The Authority covenants that except as otherwise provided herein, it will not sell, convey, mortgage, encumber or otherwise dispose of any portion of the Security.

### **Section 3.07. No Recourse.**

No recourse shall be had for the payment of the principal of, premium, if any, or interest on the Bonds or for any claim based thereon or upon any obligation, covenant or agreement contained in this Indenture or the Bond Purchase Agreement, against any past, present or future member, official, officer, director or employee of the Authority, or any successor organization, as such, either directly or through the Authority or any successor organization, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such member, official, officer, director, agent or employee as such is hereby expressly waived and released as a condition of and in consideration for the execution of this Indenture and the issuance of the Bonds.

### **Section 3.08. No Personal Liability.**

No director, member, officer or employee of the Authority, including any person executing this Indenture or the Bonds, shall be liable personally on the Bonds or subject to any personal liability for any reason relating to the issuance, sale or repayment of the Bonds.

## **ARTICLE IV**

### **FUNDS**

#### **Section 4.01. Establishment and Use of Bond Fund.**

There is hereby created and established with the Trustee a special fund to be designated the "Michigan Public Educational Facilities Authority – American Montessori Academy 2007 Bond Fund" (the "Bond Fund"). Within the Bond Fund there shall be established separate trust accounts to be designated the "Revenue Account," and the "State Aid Intercept Account," provided, however, no such account is required to be established and opened by the Trustee until such time as the account is needed under the provisions of this Indenture. Any other amounts received for deposit in the Bond Fund shall be deposited in the Revenue Account of the Bond Fund and shall not be commingled with any other moneys held by the Trustee.

There shall be deposited in the Revenue Account of the Bond Fund (a) any proceeds of the Series 2007 Bonds required to be deposited in the Bond Fund to pay accrued interest, if any, or capitalized interest, if any, on the Series 2007 Bonds; (b) all Academy Repayments under the Municipal Obligation and the Financing Agreement other than Scheduled Installment Payments, including all proceeds resulting from the enforcement of the Security or its realization as collateral; (c) Investment Income transferred from the Reserve Fund; and (d) all moneys received by the Trustee under the Financing Agreement for deposit in the Revenue Account of the Bond Fund, including Surplus Bond Proceeds, if any.

There shall be deposited in the State Aid Intercept Account of the Bond Fund all Academy Repayments under the Municipal Obligation and the Financing Agreement consisting of Scheduled Installment Payments, Additional Payments (including Reserve Fund Payments) which are made pursuant to the State Aid Agreement.

Amounts on deposit in the State Aid Intercept Account of the Bond Fund shall be paid out and applied in the following order of priority:

- (a) first, amounts will be transferred to the Revenue Account of the Bond Fund to satisfy any Scheduled Installment Payment required to be made by the Academy;
- (b) second, amounts will be transferred to the Reserve Fund to satisfy any Reserve Fund Payments required to be made by the Academy;
- (c) third, as specified in the Financing Agreement and/or as periodically directed by an authorized officer of the Authority, amounts will be used to pay Additional Payments (other than Reserve Fund Payments) required to be made by the Academy (the Trustee being permitted but not required to establish a subaccount for purposes of tracking Scheduled Fee Payments under the Financing Agreement); and
- (d) fourth, so long as no Event of Default has occurred and is continuing and after satisfaction of all Scheduled Installment Payments, Additional Payments (including Reserve Fund Payments, if any,) then due or coming due during the month of such payment, the balance of any moneys remaining in the State Aid Intercept Account shall be distributed to the Authorizing Body or as otherwise directed by the Academy in accordance with the requirements of Section 405 of the Financing Agreement.

The Authority hereby authorizes and directs the Trustee, and the Trustee hereby agrees, to withdraw sufficient funds from the Bond Fund to pay the principal of, premium, if any, and interest on the Bonds as the same become due and payable.

The Authority and Trustee shall at the direction of the Academy use such moneys to redeem Bonds in the manner and amount as directed, subject to the provisions for redemption of Bonds in this Indenture.

After payment of all principal of, premium, if any, and interest on the Bonds then due as of each December 1 and satisfaction of any other Additional Payments (including Reserve Fund Payments) then due, the Trustee shall determine the amount of excess funds then held in the Bond Fund as a result of such Investment Income and credit such amount towards the Scheduled Installment Payment to be paid from the Academy's State School Aid intercepted on the next Payment Date.

In the event any Bonds shall not be presented for payment when the principal thereof becomes due, either at maturity or otherwise, or at the date fixed for redemption thereof, if funds sufficient to pay the principal of and interest on such Bonds shall have been made available to the Trustee for the benefit of the Bondholders, all liability of the Authority and any and all liability of the Academy to the Bondholders, respecting payment of such Bonds shall forthwith cease and be completely discharged, and thereupon it shall be the duty of the Trustee to hold

such funds, without liability for interest thereon, for the benefit of the Bondholders who shall thereafter be restricted exclusively to such funds for any claim under this Indenture or with respect to the Bonds or the interest thereon.

#### **Section 4.02. Establishment, Use and Maintenance of Reserve Fund.**

The Reserve Fund shall be established with the Trustee. Within the Reserve Fund there shall be established separate trust accounts to be designated the "Academy Funded Reserve Account" and the "Authority Funded Reserve Account"; provided, however, that no such account is required to be established and opened by the Trustee until such time as the account is needed under the provisions of this Indenture. Any amounts received for deposit in the Authority Funded Reserve Account shall not be commingled with any other moneys held by the Trustee. Neither the full faith and credit nor any implied guaranty of the United States of America applies to the Series 2007 Bonds by virtue of the deposit of the Grant Funds by the Authority in the Authority Funded Reserve Account. The Academy Funded Reserve Account of the Reserve Fund shall receive certain proceeds of the Bonds as described in Section 2.01 hereof and from time to time such additional moneys required to be deposited therein by the Academy pursuant to the Financing Agreement.

If at any time there are not sufficient funds in the Bond Fund for the payment of principal of, premium, if any, and interest on the Series 2007 Bonds as the same become due, the Trustee shall withdraw *pari passu*, on a pro rata basis, from the various accounts in the Reserve Fund and deposit in the Bond Fund sufficient moneys which, when added to the moneys on deposit in the Bond Fund, will be sufficient to meet the payment of principal, premium, if any, and interest then due on the Series 2007 Bonds.

From time to time as the Trustee determines is necessary, and in any event on the first Business Day of each May and November, while amounts are required to be on deposit in the Reserve Fund, the Trustee shall determine the market value (including accrued but unpaid interest) of all Eligible Investments on deposit in the Reserve Fund, together with any cash then held in the Reserve Fund and any amounts that are available to be drawn under any letter of credit, surety bond or insurance policy then on deposit in the Reserve Fund. If the Trustee determines that the aggregate value of such amounts on deposit in the Reserve Fund is less than the Reserve Fund Requirement, the Trustee shall immediately notify the Academy of the amount necessary to restore the Reserve Fund to the Reserve Fund Requirement and the Academy shall pay such amount to the Trustee for deposit, *pari passu*, on a pro rata basis, into the Academy Funded Reserve Account of the Reserve Fund and the Authority Funded Reserve Account of the Reserve Fund on or before the next Payment Date following such notification. Notwithstanding the foregoing, if there are sufficient funds in the State Aid Intercept Account of the Bond Fund to replenish any deficiency in the Reserve Fund, after taking into consideration the priority of payments set forth in Section 4.01 hereof, then the Trustee shall transfer funds from the State Aid Intercept Account, *pari passu*, on a pro rata basis, to the Academy Funded Reserve Account of the Reserve Fund and the Authority Funded Reserve Account of the Reserve Account to replenish such deficiency.

Earnings realized from Eligible Investments in the Authority Funded Reserve Account shall be released to the Authority free and clear of the lien of this Indenture on the business day

before each May 1 and November 1, without regard to whether the aggregate amount on deposit in the Reserve Fund is less than the Reserve Fund Requirement and on the business day before payment or defeasance of all of the Bonds in accordance with Article V hereof. Investment Income realized from Eligible Investments in the Academy Funded Reserve Account of the Reserve Fund shall be released to the Bond Fund on or after each June 1 and December 1, unless the amount on deposit in the Reserve Fund (after taking into account the Earnings released or to be released to the Authority from the Authority Funded Reserve Account) is less than the Reserve Fund Requirement, in which case, Investment Income on the Academy Funded Reserve Account shall be retained in the Academy Funded Reserve Account until the amount on deposit in the Academy Funded Reserve Account equals the Reserve Fund Requirement. Moneys from the proceeds of the Series 2007 Bonds or Additional Bonds held in the Academy Funded Reserve Account in excess of the amount equal to the difference between the Reserve Fund Requirement and the amount on deposit in the Authority Funded Reserve Account shall be transferred by the Trustee to the credit of the Revenue Account of the Bond Fund to be used to pay principal or interest on the Series 2007 Bonds on the next available Bond Payment Date.

#### **Section 4.03. Establishment and Use of Project Fund.**

There is hereby created and established with the Trustee a special fund to be designated the “Michigan Public Educational Facilities Authority – American Montessori Academy 2007 Project Fund”. Certain proceeds of the Bonds, as described in Section 4.04 hereof, shall be delivered to the Trustee for deposit into the Project Fund. Any moneys received by the Trustee from any source for the Project shall also be deposited in the Project Fund. Moneys in the Project Fund shall be expended and disbursed to pay Costs of the Project, in accordance with the provisions of the Financing Agreement. The moneys in the Project Fund shall be held in trust by the Trustee and, pending application to pay Costs of the Project, shall be held as trust funds under this Indenture until paid out or transferred as provided in the Financing Agreement. Upon receipt of the Completion Certificate under the Financing Agreement, the Trustee shall deposit the Surplus Bond Proceeds, if any, in the Revenue Account of the Bond Fund to be used to pay principal or interest on the Bonds on the next available Bond Payment Date.

#### **Section 4.04. Deposit of Bond Proceeds.**

The net proceeds from the sale of the Bonds, after provision is made for any payments to the Revenue Account of the Bond Fund under Section 4.01 and the Reserve Fund under Section 4.02 shall be deposited into the Project Fund.

#### **Section 4.05. Account Statements.**

The Trustee shall keep and maintain adequate account statements, including receipts and statements of disbursements, deposits and investments, pertaining to the Project Fund, Bond Fund and Reserve Fund. The Trustee shall provide monthly transaction and asset statements pertaining to such Funds to the Academy and to the Authority. Although the Academy recognizes that it may obtain a broker confirmation or written statement containing comparable information at no additional cost, the Academy hereby agrees that confirmations of Eligible Investments are not required to be issued by the Trustee for each month in which a monthly

statement is rendered. No statement need be rendered for any fund or account if no activity occurred in such fund or account during such month.

#### **Section 4.06. Investment of Fund Moneys.**

Moneys held as part of the Project Fund, the Bond Fund and the Academy Funded Reserve Account of the Reserve Fund shall be invested and reinvested at the written direction of the Academy in Eligible Investments in accordance with the provisions of the Financing Agreement. Moneys held as part of the Authority Funded Reserve Account of the Reserve Fund shall be invested and reinvested at the written direction of the Authority in Eligible Investments in accordance with the provisions of the Financing Agreement. The Trustee may conclusively rely upon such instructions as to the suitability and legality of the directed investments. The Trustee may make any and all such investments through its own investment department or that of its affiliates or subsidiaries, and may charge its ordinary and customary fees for such trades, including cash sweep account fees. Any Eligible Investments shall be held by or under the control of the Trustee and shall be deemed at all times a part of the fund and account which was used to purchase the same. All interest accruing thereon and any profit realized from Eligible Investments shall be credited to the respective fund or account and any loss resulting from Eligible Investments shall be similarly charged. At the written direction of the Academy, the Trustee shall cause to be sold and reduced to cash a sufficient amount of Eligible Investments whenever the cash balance is or will be insufficient to make a requested or required disbursement from the applicable Fund. The Trustee shall not be accountable for any depreciation in the value of any Eligible Investment or for any loss resulting from such sale.

#### **Section 4.07. Arbitrage.**

The Authority recognizes that investment of the Bond proceeds will be at the written direction of the Academy, but agrees that it will commit no act that would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Code. The Trustee covenants that, while recognizing that investment of Bond proceeds will be at the written direction of the Academy, should the Authority file with the Trustee, or should the Trustee otherwise receive, an opinion of Bond Counsel, to the effect that any proposed investment or other use of proceeds of the Bonds would cause the Bonds to become “arbitrage bonds”, then the Trustee will comply with any instructions of the Authority or such Bond Counsel regarding such investment or use so as to prevent the Bonds from becoming “arbitrage bonds”. The Trustee shall file a copy of any such opinion of Bond Counsel with the Authority and the Academy.

#### **Section 4.08. Repayment to the Academy From the Funds.**

Any amounts remaining in the Project Fund, the Bond Fund and the Academy Funded Reserve Account of the Reserve Fund after payment in full of the Bonds, the fees and expenses and other costs specified in ARTICLE V of the Financing Agreement, and all other amounts required to be paid under the Financing Agreement or this Indenture, shall be paid to the Academy upon full payment of the Financing Agreement.

**Section 4.09. Repayment to the Authority From the Authority Funded Reserve Account.**

Any amounts remaining in the Authority Funded Reserve Account of the Reserve Fund after payment in full of the Bonds, the fees and expenses and other costs specified in ARTICLE V of the Financing Agreement, and all other amounts required to be paid under the Financing Agreement or this Indenture, shall be paid to the Authority upon discharge of this Indenture in accordance with ARTICLE V below.

**ARTICLE V**

**DISCHARGE OF LIEN**

**Section 5.01. Discharge of Lien and Security Interest.**

Subject to the next paragraph, upon payment in full of the Bonds, the lien of this Indenture upon the Security shall cease, terminate and be void, and thereupon the Trustee, upon determining that all conditions precedent to the satisfaction and discharge of this Indenture have been complied with, and upon payment of the Trustee's fees, costs and expenses hereunder, shall (i) cancel and discharge this Indenture and the security interests, (ii) execute and deliver to the Authority and the Academy such instruments in writing as shall be required to cancel and discharge this Indenture and the security interests, (iii) reconvey to the Authority all amounts in the Authority Funded Reserve Account and reconvey such other Security, as applicable, to the Authority and the Academy, and (iv) assign and deliver to the Authority all amounts in the Authority Funded Reserve Account and assign and deliver to the Authority and the Academy so much of such other Security as may be in its possession or subject to its control, except for moneys and Government Obligations held in the Bond Fund for the purpose of paying Bonds; provided, however, such cancellation and discharge of this Indenture shall not terminate the powers and rights granted to the Trustee with respect to the payment, transfer and exchange of the Bonds; and provided, further, that the rights of the Authority and the Trustee to indemnity and payment of all reasonable fees and expenses shall survive.

If payment or provision therefor has been made with respect to all the Bonds, the interest of the Trustee in the Financing Agreement and the Municipal Obligation shall cease and the Trustee shall cancel the Financing Agreement and the Municipal Obligation and return the same to the Academy. Neither the obligations nor moneys deposited with the Trustee pursuant to this ARTICLE V shall be withdrawn or used for any purpose other than, and shall be segregated and held in trust, for the payment of the principal, redemption premium, if any, and interest on the Bonds in accordance with the terms of this Indenture.

**Section 5.02. Provision for Payment of Bonds.**

Bonds shall be deemed to have been paid within the meaning of Section 5.01 if:

(a) there have been irrevocably deposited in the Bond Fund either cash or noncallable Government Obligations, of such maturities and interest payment dates and bearing such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon (such earnings to be held in trust also), be sufficient, for

the payment at their respective maturities or redemption dates prior to maturity, of the principal thereof and the redemption premium (if any) and interest to accrue thereon to such maturity or redemption dates, as the case may be;

(b) there have been paid all fees, costs and expenses of the Authority and the Trustee then due or to become due or there are sufficient moneys in the Bond Fund to make such payments;

(c) if any Bonds are to be redeemed on any date prior to their maturity, the Trustee has received in form satisfactory to it irrevocable instructions to redeem such Bonds on such date and either evidence satisfactory to the Trustee that all redemption notices required by this Indenture have been given or irrevocable power authorizing the Trustee to give such redemption notices; and

(d) the Trustee shall have received a written opinion of Bond Counsel to the effect that such deposit (and the payment of the Bonds therefrom) will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

In determining the sufficiency of the moneys and/or Government Obligations deposited pursuant to subsection (a) of this Section 5.02, the Trustee shall be entitled to receive, at the expense of the Academy, and may rely on a verification report of a firm of nationally recognized independent certified public accountants.

Limitations elsewhere specified herein regarding the investment of moneys held by the Trustee in the Bond Fund shall not be construed to prevent the depositing and holding in the Bond Fund of the obligations described in the preceding subparagraph (a) for the purpose of defeasing the lien of this Indenture as to Bonds which have not yet become due and payable. In addition, all moneys so deposited with the Trustee as provided in this Section 5.02 may also be invested and reinvested, at the written direction of the Academy, in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from all Government Obligations in the hands of the Trustee pursuant to this Section 5.02 which is not required for the payment of the Bonds and interest and redemption premium, if any, thereon with respect to which such moneys shall have been so deposited under this Section 5.02 shall be deposited in the Bond Fund as and when realized and collected for use and application as are other moneys deposited in the Bond Fund.

**Section 5.03. Discharge of this Indenture.**

Notwithstanding the discharge and cancellation of the lien of this Indenture upon the Security under Section 5.01, this Indenture and the rights granted and duties imposed hereby, to the extent not inconsistent with such discharge and cancellation of the lien upon the Security, shall nevertheless continue and subsist after payment in full of the Bonds until the Trustee shall have returned to the Academy all funds held by the Trustee in the Bond Fund, the Project Fund and the Reserve Fund pursuant to Section 4.08 of this Indenture.

#### **Section 5.04. Unclaimed Moneys.**

Any moneys deposited with the Trustee in accordance with the terms and provisions of this Indenture, or any moneys held by any paying agent, in trust for the payment of the principal of and redemption premium, if any, or interest on the Bonds and remaining unclaimed by the Registered Owners of the Bonds for five years after the final maturity of all Bonds issued hereunder or the redemption date of all the Bonds, as the case may be, shall be applied by the Trustee in accordance with the Uniform Unclaimed Property Act, Act No. 29, Public Acts of Michigan, 1995, as amended from time to time. The Authority and the Trustee shall have no responsibility with respect to such moneys.

### **ARTICLE VI**

#### **DEFAULT PROVISIONS AND REMEDIES**

##### **Section 6.01. Events of Default.**

Any one of the following shall constitute an Event of Default hereunder:

- (a) Default in the payment of any interest on any Bond when and as the same is due;
- (b) Default in the payment of the principal of or any premium on any Bond when and as the same is due, whether at the stated maturity or redemption date thereof or by acceleration;
- (c) Default in the observance or performance of any other of the covenants, agreements or conditions on the part of the Authority included in this Indenture or in the Bonds and the continuance thereof for a period of 30 days after the Trustee or the holders of not less than 51% in principal amount of the Bonds gives written notice to the Authority and the Academy; provided, however, if such Default is such that it cannot be cured within such period, it shall not constitute an Event of Default if the Default, in the opinion of the Trustee, is correctable and will not have a material adverse effect on the Bondholders or any of the security for the Series 2007 Bonds and if corrective action is instituted within such period and diligently pursued until the Default is corrected; or
- (d) The occurrence of an "Event of Default" as defined in the Financing Agreement.

##### **Section 6.02. Acceleration.**

Upon the occurrence of any Event of Default hereunder, the Trustee may and upon (i) the written request of the holders of not less than twenty-five percent in aggregate principal amount of Bonds then Outstanding or (ii) the occurrence of an Event of Default under subsection (a) or (b) of Section 6.01 hereof, the Trustee shall immediately, by notice in writing sent to the Authority, declare the principal of and any premium on all Bonds then Outstanding (if not then due and payable) and the interest accrued thereon to be due and payable immediately, and, upon such declaration, such principal and premium, if any, and interest shall become and be

immediately due and payable. Interest on the Bonds shall cease to accrue on the date of such declaration. Upon any declaration of acceleration hereunder, the Trustee shall immediately exercise such rights as it may have under the Financing Agreement to declare all payments thereunder to be immediately due and payable, to the extent it has not already done so.

Immediately following any such declaration of acceleration, the Trustee shall mail notice of such declaration by first class mail to each holder of Bonds at his last address appearing on the Bond Register. Any defect in or failure to give such notice of such declaration shall not affect the validity of such declaration.

##### **Section 6.03. Other Remedies; Rights of Bondholders.**

Upon the happening and continuance of an Event of Default hereunder the Trustee may, with or without taking action under Section 6.02 hereof, pursue any available remedy to enforce the performance of or compliance with any other obligation or requirement of this Indenture or the Financing Agreement, the Mortgage or any other security provided by the Academy.

Subject to Section 6.02 hereof, upon the happening and continuance of an Event of Default, and if requested to do so by the holders of at least fifty-one percent (51%) in aggregate principal amount of Bonds then Outstanding and the Trustee is indemnified as provided in Section 7.01 hereof, the Trustee shall exercise such of the rights and powers conferred by this Section and by Section 6.02 hereof as the Trustee, being advised by Counsel, shall deem most effective to enforce and protect the interests of the Bondholders.

No remedy by the terms of this Indenture conferred upon or reserved to the Trustee (or to the Bondholders) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bondholders hereunder or now or hereafter existing.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default hereunder, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

The Trustee, as the assignee of all right, title and interest of the Authority in and to the Financing Agreement (with the exception of the Unassigned Rights), shall be empowered to enforce each and every right granted to the Authority under the Financing Agreement (with the exception of the Unassigned Rights).

In addition to and without limitation of the foregoing, the Trustee shall not otherwise be obligated to acquire possession of or take any other action with respect to the property subject to the Mortgage (the "Mortgaged Property"), if as a result of any such action, the Trustee would be considered to hold title to, to be a "mortgagee-in-possession of", or to be an "owner" or "operator" of the Mortgaged Property within the meaning of the Comprehensive Environmental

Responsibility Cleanup and Liability Act of 1980, as amended from time to time, unless the trustee has previously determined, based on a report prepared by a person who regularly conducts environmental audits, that:

(a) the Mortgaged Property is in compliance with applicable environmental laws or, if not, that it would be in the best interest of the owners of the Bonds to take such actions as are necessary for the Mortgaged Property to comply therewith; and

(b) there are not circumstances present at the Mortgaged Property relating to the use, management or disposal of any hazardous wastes for which investigation, testing, monitoring, containment, clean-up or remediation could be required under any federal, state or local law or regulation, or that if any such materials are present for which such action could be required, that it would be in the best economic interest of the owners of the Bonds to take such actions with respect to the Mortgaged Property.

The environmental audit report contemplated hereby shall not be prepared by an employee or affiliate of the Trustee, but shall be prepared by a person who regularly conducts environmental audits for purchasers of commercial property, as determined (and, if applicable, selected) by the Trustee, and the cost hereof shall be borne by the Academy or the Bondholders but in no event by the Authority.

Notwithstanding anything contained herein or in the Mortgage to the contrary, before taking any action under this Section 6.03, the Trustee may require that a satisfactory indemnity bond, indemnity or environmental impairment insurance be furnished to it for the payment or reimbursement of all expenses to which it may be put and to protect it against all liability resulting from any claims, judgments, demands, damages, losses, penalties, fines, fees, costs, liabilities (including strict liability) and expenses which may result from such action.

#### **Section 6.04. Right of Bondholders to Direct Proceedings.**

If a Default occurs of which the Trustee is by reason of Section 7.01(j) deemed to have notice, then the Trustee within forty-five days after the occurrence thereof (unless such Default shall have been cured or waived) shall give notice of such Default to the Registered holders of the Outstanding Bonds at the address then shown on the Bond Register. The holders of no less than 51% of the principal amount of Bonds then Outstanding may by written instrument filed with the Trustee (i) notify the Trustee, the Authority and the Academy of the existence of a Default or Event of Default, upon which notice the Trustee shall be conclusively presumed to have such notice, (ii) request the Trustee to give written notice of a Default or Event of Default to the Academy and the Authority or give such notice themselves under the provisions of Section 6.01, (iii) as to any Event of Default, request the Trustee to exercise any of the remedies under Section 6.02, upon which request, subject to right of indemnification, the Trustee shall exercise such remedy, (iv) as to any Event of Default, direct the method and place of conducting all proceedings to be taken in connection with the exercise of any remedy, (v) request the waiver of any Event of Default and rescission of the declaration of maturity of principal or termination of any proceedings in connection with the exercise of any remedies; provided, however that there shall be no such waiver, rescission or termination unless all arrears of principal and interest on the Bonds, together with interest thereon (to the extent permitted by law) at the applicable rate of

interest borne by the Bonds and all fees and expenses of the Trustee, including the reasonable fees and expenses of its counsel, in connection with such Event of Default shall have been paid or provided for, and (vi) request the Trustee to intervene in any judicial proceeding to which the Authority or the Academy is a party which may have substantial bearing on the interests of holders of the Bonds, and subject to right of indemnification, the Trustee shall so intervene, subject to the approval of a court exercising jurisdiction.

In the event the holders of not less than 51% of the principal amount of Bonds then Outstanding shall direct the Trustee to exercise one or more of the foregoing rights or one or more of the remedies upon an Event of Default herein authorized and shall reasonably indemnify the Trustee for all costs and expenses in the exercise of said rights and remedies as provided in Section 7.01(h) and the Trustee shall fail to take such designated action as directed within 30 days after receiving written notice of the same and being so indemnified, such Bondholders shall have the right to exercise any and all of the rights and remedies herein authorized in the same manner as if the same had been instituted by the Trustee.

Bondholders shall have the right to bring individual action only to enforce payment of the principal of and interest on the Bonds of the respective holders thereof at the respective due dates thereof, but only if the Trustee has not taken similar action.

No Bondholder shall have the right to institute any proceeding for the enforcement of this Indenture unless such Bondholder has given the Trustee and the Academy written notice of an Event of Default, the holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have requested the Trustee in writing to institute such proceeding, the Trustee shall have been afforded a reasonable opportunity to exercise its powers or to institute such proceeding, and there shall have been offered to the Trustee indemnity and the Trustee shall have thereafter failed or refused to exercise such powers or to institute such proceeding within a reasonable time. Nothing in this Indenture shall affect or impair any right of enforcement conferred on any Bondholder hereof by the Enabling Legislation to enforce (i) the payment of the principal of and redemption premium (if any) and interest on Bonds at and after the maturity thereof, or (ii) the obligation of the Authority to pay the principal of and redemption premium (if any) and interest on Bonds to such Bondholder at the time, place, from the source and in the manner as provided in this Indenture.

#### **Section 6.05. Discontinuance of Default Proceedings.**

In case the Trustee has proceeded to enforce any right under this Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or have been determined adversely, then and in every such case the Authority and the Trustee shall be restored to their former positions and rights hereunder and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken subject to the limits of any adverse determination.

#### **Section 6.06. Waiver.**

With the written consent of the holders of not less than 51% of the principal amount of the Bonds then Outstanding, the Trustee may waive any Default or Event of Default hereunder



and its consequences and rescind any declaration of maturity of principal provided there shall have been deposited with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to the occurrence of such Event of Default and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal at the rate borne by the respective Bonds, and the reasonable fees and expenses of the Trustee, including the reasonable fees and expenses of its counsel, and any and all other Defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor or otherwise waived by such Bondholders. In case of any such waiver or rescission, the Authority, the Academy, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, but no such waiver or rescission shall extend to or affect any subsequent or other Default or Event of Default, or impair any right consequent thereon.

No delay or omission to exercise any power accruing upon Default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

#### **Section 6.07. Application of Moneys.**

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of this ARTICLE VI shall be deposited in the Bond Fund. After payment of (i) the cost and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities, and advances incurred or made by the Trustee and the creation of a reserve for anticipated fees, costs and expenses, including reasonable attorneys' fees, and all other current outstanding fees and expenses of the Trustee, and (ii) any sums due to the Authority under the Financing Agreement (other than Academy Repayments), such moneys shall be applied in the order set forth below:

(a) Unless the principal on all Bonds shall have become or been declared due and payable, all such money shall be applied:

First – To the payment of all installments of interest then due on the Bonds in order of maturity of such installments of interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the ratable payment of the amounts due on such installment,

Second – To the payment of the unpaid principal of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of this Indenture), in the order of their due dates, with interest on such Bonds from the respective dates upon which they became due (at the rate borne by the Bonds, to the extent permitted by law) and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the ratable payment of the amounts due on such date; and

Third – To the payment of any bond servicing costs as the Trustee may be directed in writing by an authorized officer of the Authority.

(b) If principal of all the Bonds shall have become or been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, without preference or priority as between principal or interest, ratably according to amounts due respectively for principal and interest to the persons entitled thereto.

(c) If the principal on all Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded under this Article then, subject to paragraph (b) of this Section in the event that the principal of all the Bonds shall later become or be declared due and payable, the moneys shall be applied in accordance with paragraph (a) of this Section.

Whenever moneys are to be applied pursuant to this Section, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application, the likelihood of additional moneys becoming available for such application in the future, and potential expenses relating to the exercise of any remedy or right conferred on the trustee by this Indenture. Whenever the Trustee shall apply such moneys, it shall fix the date (which shall be an interest payment date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue.

## **ARTICLE VII**

### **THE TRUSTEE**

#### **Section 7.01. Appointment.**

The Trustee is hereby appointed and does hereby agree to act in such capacity, and to perform the express duties of the Trustee under this Indenture, but only upon and subject to the following express terms and conditions (and no implied covenants or other obligations shall be read into this Indenture against the Trustee):

(a) The Trustee may execute any of its trusts or powers and perform any of its duties herein by or through attorneys, agents, receivers or employees, and shall be entitled to rely on advice of Counsel and other professionals concerning all matters of such trusts, powers and duties. The Trustee shall not be answerable for the default or misconduct of any attorney, agent, receiver or employee selected by it with reasonable care, and may in all cases pay such Persons reasonable compensation. The Trustee shall not be answerable for the exercise of any discretion or power under this Indenture or for anything whatsoever in connection with its trusts, powers and duties herein, except only for its gross negligence or willful misconduct.

(b) The Trustee shall not be responsible for any recital herein or in the Bonds (except with respect to the certificate of authentication of the Trustee endorsed on the Bonds), or for the validity of the execution by the Authority of this Indenture or of any supplements thereto or instruments of further assurance, or for the sufficiency of the Security for the Bonds. Except

as otherwise provided in Section 6.02 hereof, the Trustee shall have no obligation to perform any of the duties of the Authority under the Financing Agreement, and the Trustee shall not be liable for any loss suffered in connection with any investment of funds made by it in accordance with Section 4.06 hereof. The Trustee shall have no duty or responsibility to examine or review and shall have no liability for the contents of any documents submitted to or delivered to any Bondholder in the nature of a preliminary or final placement memorandum, official statement, offering circular or similar disclosure document.

(c) The Trustee shall not be accountable for the use of any Bonds authenticated or delivered hereunder after such Bonds shall have been delivered in accordance with instructions of the Authority or for the use by the Academy of the proceeds of the Municipal Obligation. The Trustee may become the owner of Bonds with the same rights as any other Bondholder.

(d) The Trustee shall be protected in acting upon opinions of counsel and upon any notice, request, consent, certificate, order, affidavit, letter, telegram, or other paper or document believed to be genuine and correct and to have been signed or sent by an authorized representative of such Person or Persons. Any action taken by the Trustee pursuant to this Indenture upon the request or authority or consent of any Person who at the time of making such request or giving such authority or consent is the owner of any Bond (such ownership to be established as provided in Section 2.08 hereof), shall be conclusive and binding upon all future owners or holders of the same Bond and upon Bonds issued in exchange therefor or in place thereof.

(e) The permissive right of the Trustee to do things enumerated in this Indenture or the Financing Agreement shall not be construed as duties. The Trustee shall only be responsible for the performance of the duties expressly set forth herein and shall not be answerable for other than its gross negligence or willful misconduct in the performance of those express duties.

(f) The Trustee shall not be personally liable for any debts contracted or for damages to Persons or to personal property injured or damaged, or for salaries or non-fulfillment of contracts, relating to the Project.

(g) The Trustee shall not be required to give any bond or surety in respect of the execution of its trusts and powers or otherwise hereunder.

(h) Before taking any action requested hereunder, the Trustee may require that satisfactory security or indemnity be furnished to it for the reimbursement of all fees and expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its own gross negligence or willful misconduct by reason of any action so taken.

(i) All moneys received by the Trustee, until used or applied or invested as herein provided, shall be held as special trust funds for the purposes specified in this Indenture and for the benefit and security of the holders of the Bonds as herein provided. Such moneys need not be segregated from other funds except to the extent required by law or herein provided,

and the Trustee shall not otherwise be under any liability for interest on any moneys received hereunder except such as may be agreed upon.

(j) The Trustee shall not be bound to ascertain or inquire as to the performance of the obligations of the Academy under the Financing Agreement or the Authority under this Indenture, and shall not be deemed to have, or required to take, notice of a Determination of Taxability or an Event of Default under this Indenture, except (i) in the event the Academy fails to pay any Academy Repayment when due, (ii) in the event of an insufficient amount in the Bond Fund (or any account therein) to make a principal or interest payment on the Bonds, (iii) upon written notification actually received by the Trustee of a Determination of Taxability from the Academy, the Authority or the holder of any Bonds, (iv) upon written notification actually received by the Trustee of a default or Event of Default from the Authority, the Academy or the holders of not less than 25% of the principal amount of Outstanding Bonds. In the absence of such notice, the Trustee may conclusively presume there is no Determination of Taxability and no Event of Default except as aforesaid. The Trustee may nevertheless require the Authority and the Academy to furnish information regarding performance of their obligations under the Financing Agreement and this Indenture, but is not obligated to do so.

(k) The Trustee shall, prior to any Event of Default and after the curing of all Events of Default which may have occurred, perform such duties and only such duties of the Trustee as are specifically set forth in this Indenture and the Financing Agreement. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by this Indenture and the Financing Agreement and use the same degree of care and skill in their exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. The foregoing shall not limit the Trustee's obligations under Section 6.02 hereof.

(l) In the event that the Trustee receives direction from Bondholders under any section of this Indenture which permits Bondholders to direct the actions of the Trustee, the Trustee shall only be required to act pursuant to the direction of the Bondholders which represent the largest percentage in aggregate principal amount of the Outstanding Bonds at the time such direction is issued to the Trustee (the "Majority Direction"). The Trustee may act pursuant to other directions of Bondholders to the extent that such direction is not inconsistent with the Majority Direction. The Trustee shall not be liable for a failure to act upon any direction except the Majority Direction when acting pursuant to this Section 7.01(l). Nothing in this Section 7.01(l) shall be construed to modify or amend any section hereof which requires a minimum number of Bondholders to direct the Trustee to take certain action before the taking of such action by the Trustee becomes mandatory.

(m) Notwithstanding the effective date of this Indenture or anything to the contrary in this Indenture, the Trustee shall have no liability or responsibility for any act or event relating to this Indenture which occurs prior to the date the Trustee formally executes this Indenture and commences acting as Trustee hereunder.

(n) The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that (a) the Academy, subsequent to such

transmission of written instructions, shall provide the originally executed instructions or directions to the Trustee in a timely manner, (b) such originally executed instructions or directions shall be signed by a person as may be designated and authorized to sign for the Academy or in the name of the Academy, by an authorized representative of the Academy, and (c) the Academy shall provide to the Trustee an incumbency certificate listing such designated persons, which incumbency certificate shall be amended whenever a person is to be added or deleted from the listing. If the Academy elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Academy agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

#### **Section 7.02. Fees, Expenses.**

The Trustee shall be entitled to payment and/or reimbursement for reasonable fees for its ordinary services rendered hereunder and all advances, counsel fees and other ordinary expenses reasonably made or incurred by the Trustee in connection with such ordinary services. If it becomes necessary that the Trustee perform extraordinary services, it shall be entitled to reasonable extra compensation therefor, and to reimbursement for reasonable extraordinary expenses in connection therewith; provided, that if such extraordinary services or extraordinary expenses are occasioned by the gross negligence or willful misconduct of the Trustee it shall not be entitled to compensation or reimbursement therefor.

The Trustee shall also be indemnified by the Academy as provided in the Financing Agreement. The Trustee recognizes that all fees, charges and other compensations to which it may be entitled under this Indenture are required to be paid by the Academy under the terms of the Financing Agreement or from funds derived from the Project or from the proceeds of the Bonds. Accordingly, the Trustee agrees that except for moneys that the Authority may derive from the foregoing (excluding, however, the moneys for the issuance fee, administrative costs, taxes and other public service charges and indemnity under the Financing Agreement) the Authority shall not be liable for any such fees, charges and other compensation to which the Trustee may be entitled. Payment of all such amounts shall however, be secured by the Security as set forth herein.

As security for the payment of the Trustee's fees, costs and expenses and for the indemnity provided in this Section 7.02, the Trustee shall have a first lien on all moneys and property coming into its possession.

When the Trustee incurs expenses or renders services after the occurrence of an act of bankruptcy with respect to the Authority or the Academy, the expenses and the compensation for the services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

The Academy's payment obligations under this Section shall survive the discharge of this Indenture and the resignation or removal of the Trustee, and shall not be limited by any law affecting the compensation of a trustee of an express trust.

#### **Section 7.03. Intervention in Litigation.**

In any judicial proceeding to which the Authority or the Academy is a party, and which, in the opinion of the Trustee and its counsel, has a substantial bearing on the interests of the holders of the Outstanding Bonds, the Trustee may intervene on behalf of the Owners of the Bonds and shall do so if requested in writing by the holders of at least 25% in aggregate principal amount of the Bonds then Outstanding, and when provided with sufficient indemnity pursuant to Section 7.01(h) hereof.

#### **Section 7.04. Resignation; Appointment of Successor Trustee; Successor Trustee Upon Merger, Consolidation or Sale.**

(a) The Trustee and any successor Trustee may resign only upon giving 30 days' prior written notice to the Authority, the Academy and the Bondholders. Such resignation shall take effect only upon the appointment of a successor Trustee as described in Section 7.04(b) below and the acceptance of such appointment by the successor Trustee. Upon appointment of a successor Trustee, the resigning Trustee shall, after payment of its fees, costs and expenses, assign all of its right, title and interest in the Security, and transfer and assign its right, title and interest in this Indenture to the successor Trustee. The successor Trustee shall meet the requirements of Section 7.04(b) below and shall accept in writing its duties and responsibilities hereunder and file such acceptance with the Authority and the Academy.

(b) In case the Trustee shall give notice of resignation or be removed, or be dissolved, or shall be in the course of dissolution or liquidation, or otherwise become incapable of acting hereunder, or in case it shall be taken under the control of any public office or offices, or of a receiver appointed by a court, a successor may with the prior written consent of the Academy (to the extent that no "Event of Default" shall have occurred and be continuing under the Financing Agreement), be appointed by the owners of a majority in aggregate principal amount of Bonds then Outstanding, by an instrument or concurrent instruments in writing signed by such owners, or by their duly authorized attorneys in fact, a copy of which shall be delivered personally or sent by first class mail, postage prepaid, to the Authority, the retiring Trustee, the successor Trustee and the Academy. In the absence of an appointment by the Bondholders, the Authority may, with the consent of the Academy (to the extent that no "Event of Default" shall have occurred and be continuing under the Financing Agreement), appoint a successor Trustee, by an instrument in writing signed by an authorized officer of the Authority, a copy of which shall be delivered personally or sent by first class mail, postage prepaid, to the retiring Trustee, the successor Trustee and the Academy. If the Registered Owners and the Authority fail to so appoint a successor Trustee, hereunder within sixty (60) days after the Trustee has given notice of its resignation, has been removed, has been dissolved, has otherwise become incapable of acting hereunder or has been taken under control by a public officer or receiver, the Trustee shall have the right to petition a court of competent jurisdiction to appoint a successor hereunder. Every such Trustee appointed pursuant to the provisions of this Section 7.04 (i) shall at all times be a bank having trust powers or a trust company, (ii) shall at all times be organized and doing

business under the laws of the United States of America or of any state, (iii) shall have, or be wholly owned by an entity having, a combined capital and surplus of at least \$50,000,000, (iv) shall be authorized under such laws to exercise corporate trust powers, and (v) shall be subject to supervision or examination by federal or state authority.

(c) Any corporation or association into which the Trustee may be merged or converted or with or into which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any merger, conversion, sale, consolidation or transfer to which it is a party, provided such company shall be eligible under Section 7.04(b) hereof, shall be and become successor Trustee hereunder and shall be vested with all the trusts, powers, rights, obligations, duties, remedies, immunities and privileges hereunder as was its predecessor, without the execution or filing of any instrument or any further act on the part of any of the parties hereto.

#### **Section 7.05. Removal of Trustee.**

The Trustee may be removed at any time by an instrument or concurrent instruments in writing (a) delivered to the Trustee, the Authority and the Academy and signed by the owners of a majority in aggregate principal amount of Bonds then Outstanding, or (b) delivered to the Trustee and the Authority and signed by the Academy; provided that if an Event of Default has occurred and is continuing hereunder, the Trustee may not be removed without the consent of the holders of a majority in aggregate principal amount of the Bonds then Outstanding. No removal of the Trustee and no appointment of a successor Trustee shall become effective until the successor Trustee has accepted its appointment in the manner provided in Section 7.04 hereof. Upon such removal and the payment of its fees, costs and expenses, the Trustee shall assign to the successor Trustee all of its right, title and interest in the Security in the same manner as provided in Section 7.04 hereof.

#### **Section 7.06. Instruments of Bondholders.**

Any instrument required by this Indenture to be executed by Bondholders may be in any number of writings of similar tenor and may be executed by Bondholders in person or by an agent appointed in writing. Proof of the execution of any such instrument or of the writing appointing any such agent shall be sufficient for any of the purposes of this Indenture if it is established by a certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof. Proof of the ownership of Bonds shall be established by the ownership records noted in the Bond Register.

The Trustee may rely on such an instrument of Bondholders unless and until the Trustee receives notice in the form specified above that the original such instrument is no longer trustworthy. In the event that the Trustee receives conflicting directions from two groups of Bondholders, each with combined holdings of not less than 25% of the principal amount of Outstanding Bonds, the directions given by the group of Bondholders which hold the largest percentage of Bonds shall be controlling and the Trustee shall follow such directions as required in this Indenture.

#### **Section 7.07. Appointment of Separate or Co-Trustee.**

It is the intent of the parties to this Indenture that there shall be no violation of any law of any jurisdiction (including particularly the laws of the State) denying or restricting the rights of banking corporations or associations to transact business as a trustee in such jurisdiction. It is recognized that in case of litigation under this Indenture or the Financing Agreement, and in particular in the case of the enforcement of this Indenture on default, or in case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies herein granted to the Trustee, or hold title to the properties, in trust, as herein granted, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional individual or institution as a separate trustee or co-trustee. The following provisions of this Section 7.07 are adapted to these ends.

If the Trustee appoints an additional individual or institution as a separate trustee or co-trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, duty, obligation, title, interest and lien expressed or intended by this Indenture to be exercised by, vested in or conveyed to the Trustee with respect thereto shall be exercisable by, vested in and conveyed to such separate trustee or co-trustee, but only to the extent necessary to enable such separate trustee or co-trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary for the exercise thereby by such separate trustee or co-trustee shall run to and be enforceable by either of them.

Should any instrument in writing from the Authority be required by the separate trustee or co-trustee so appointed by the Trustee for more fully vesting in and confirming to them such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Authority. If any separate trustee or co-trustee, or a successor to either, shall die, become incapable of acting or not be qualified to act, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co-trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a successor to such separate trustee or co-trustee.

### **ARTICLE VIII**

#### **AMENDMENTS, SUPPLEMENTAL INDENTURES**

##### **Section 8.01. Supplemental Indentures.**

The Authority and the Trustee without the consent of or notice to any Bondholders, may enter into an indenture or indentures supplemental to this Indenture and not inconsistent herewith for one or more of the following purposes:

(a) To cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture which may be defective or inconsistent with any provision contained herein or in any supplemental indenture, or to make such other

provisions in regard to matters or questions arising under this Indenture which do not materially adversely affect the interest of the Bondholders;

(b) To grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders or the Trustee;

(c) To grant or pledge to the Trustee for the benefit of the Bondholders any additional security other than that granted or pledged under this Indenture;

(d) To modify, amend or supplement this Indenture or any supplemental indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar federal statute then in effect or to permit the qualification of the Bonds for sale under the securities laws of any of the states of the United States;

(e) To appoint a successor Trustee, separate trustees or co-trustees in the manner provided in ARTICLE VII;

(f) To comply with the provisions of this Indenture pertaining to supplemental indentures in connection with the issuance of Additional Bonds;

(g) To maintain the exclusion of interest on the Bonds from gross income for federal or State of Michigan income tax purposes;

(h) To make any other change which the Trustee and the Authority determine, in reliance on an opinion of Counsel, will not have a material adverse effect on Bondholders; or

To accomplish, implement, or give effect to any other action which is authorized or required by the Financing Agreement or this Indenture.

When requested by the Authority or the Academy, and upon receipt of an opinion of Bond Counsel to the effect that all conditions precedent under this Indenture have been met, the Trustee shall join the Authority in the execution of any such supplemental indenture. A copy of all such supplemental indentures shall be promptly furnished to the Academy.

#### **Section 8.02. Amendments to Indenture; Consent of Bondholders and the Academy.**

Exclusive of supplemental indentures covered by Section 8.01 hereof and subject to the terms and provisions contained in this Section 8.02, and not otherwise, the holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding and affected by such indenture or indentures supplemental hereto shall have the right, from time to time, anything contained in this Indenture to the contrary notwithstanding, to consent to and direct the execution by the Trustee of such other indenture or indentures supplemental hereto as shall be consented to by the Authority, which consent shall not be unreasonably withheld, for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Indenture or in any supplemental indenture; provided, however, that nothing in this Article shall permit, or be construed as permitting (a) without the

consent of the holders of all Bonds then Outstanding (i) an extension of the maturity of the principal of, or the mandatory redemption date of, or interest on, any Bond, or (ii) a reduction in the principal amount of, or the premium or the rate of interest on, any Bond, (iii) a preference or priority of any Bond or Bonds over any other Bond or Bonds, (iv) the creation of a lien prior to the lien of this Indenture, (v) a reduction in the aggregate principal amount of the Bonds required for consent to any supplemental indenture, or (b) a modification or change in the duties of the Trustee hereunder without the consent of the Trustee. The giving of notice to and consent of the Bondholders to any such proposed supplemental indenture shall be obtained pursuant to Section 8.06.

Anything herein to the contrary notwithstanding, a supplemental indenture, amendment or other document described under this ARTICLE VIII which affects any rights or obligations of the Academy shall not become effective unless and until the Academy consents to the execution of such supplemental indenture, amendment or other document.

#### **Section 8.03. Amendments to Financing Agreement Not Requiring Consent of Bondholders.**

The Authority and the Academy may with the consent of the Trustee but without the consent of or notice to any of the Bondholders, enter into or permit any amendment of the Financing Agreement acceptable to the Academy as may be required (i) to cure any ambiguity or formal defect or omission which shall not adversely affect the interest of the Bondholders; (ii) to grant or pledge to the Authority or Trustee, for the benefit of the Bondholders, any additional security; or (iii) in connection with any other change therein which, in the judgment of the Trustee, is not materially adverse to the Trustee or the Bondholders.

Copies of any such amendments to the Financing Agreement shall be filed with the Trustee.

#### **Section 8.04. Amendments to Financing Agreement Requiring Consent of Bondholders.**

Except as provided in Section 8.03 hereof, the Authority shall not enter into, and the Trustee shall not consent to, any other modification or amendment of the Financing Agreement, nor shall any such modification or amendment become effective, without the consent of the holders of not less than a majority of the aggregate principal amount of the Bonds at the time Outstanding, such consent to be obtained in accordance with Section 8.06 hereof. No such amendment may, without the consent of the holders of all the Outstanding Bonds, reduce the amounts or delay the times of payment of Academy Repayments under the Financing Agreement.

Copies of any such amendments to the Financing Agreement shall be filed with the Trustee.

#### **Section 8.05. Amendments, Changes and Modifications to the Financing Agreement.**

The Trustee may, without the consent of the owners of the Bonds, consent to any amendment of the Financing Agreement as may be required for purposes of curing any ambiguity, formal defect or omission which, in the Trustee's judgment, acting in reliance upon an opinion of Counsel, does not prejudice in any material respects the interests of the Bondholders. Except for such amendments, the Financing Agreement may be amended only with the consent of the Authority, the Trustee and the owners of a majority in aggregate principal amount of Outstanding Bonds, except that no such amendment may be made which would reduce the amounts required to be paid or the time for payment of such amounts under the Financing Agreement without the written consent of the owners of all the Outstanding Bonds.

Copies of any such amendments, changes or modifications to the Financing Agreement shall be filed with the Trustee.

#### **Section 8.06. Notice to and Consent of Bondholders.**

If consent of the Bondholders is required under the terms of this Indenture for the amendment of this Indenture or the Financing Agreement for any other similar purpose, the Trustee shall cause notice of the proposed execution of the amendment or supplemental indenture to be given by first class mail to the last known holders of the Outstanding Bonds then shown on the Bond Register. Such notice shall briefly set forth the nature of the proposed amendment, supplemental indenture or other action and shall state that copies of any such amendment, supplemental indenture or other document are on file at the designated corporate trust office of the Trustee for inspection by all Bondholders. If, within 60 days or such longer period as shall be prescribed by the Trustee following the mailing of such notice the holders of a majority or all, as the case may be, of the principal amount of the Bonds Outstanding by instruments filed with the Trustee shall have consented to the amendment, supplemental indenture or other proposed action, then the Trustee may execute such amendment, supplemental indenture or other document or take such proposed action and the consent of the Bondholders shall thereby be conclusively presumed.

### **ARTICLE IX**

#### **MISCELLANEOUS**

##### **Section 9.01. Limitation of Rights.**

With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Indenture or the Bonds is intended or shall be construed to give to any Person other than the parties hereto, the Bondholders and the Academy any legal or equitable right, remedy or claim under or in respect to this Indenture or any covenants, conditions and provisions herein contained; this Indenture and all of the covenants, conditions and provisions herein being intended to be and being for the sole and exclusive benefit of the parties hereto, the Bondholders and the Academy as herein provided.

#### **Section 9.02. Severability.**

If any provision of this Indenture is held to be in conflict with any applicable statute or rule of law or is otherwise held to be unenforceable for any reason whatsoever, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other part or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent whatsoever.

The invalidity of any one or more phrases, sentences, clauses or Sections of this Indenture contained, shall not affect the remaining portions of this Indenture, or any part thereof.

#### **Section 9.03. Notices.**

Except as otherwise provided herein, all notices, certificates, or other communications hereunder shall be in writing and shall be deemed given upon receipt, by hand delivery, mail, overnight delivery, telecopy or other electronic means addressed as follows:

If to the Authority: Michigan Public Educational Facilities Authority  
Richard H. Austin State Office Building, 1st Floor  
430 W. Allegan  
Lansing, MI 48922  
Tel: (517) 335-0994  
Fax: (517) 241-9509

If to the Academy: American Montessori Academy  
14800 Middlebelt Road  
Livonia, MI 48154  
Attn: Director  
Tel: (734) 525-7100  
Fax: (734) 525-8952

If to the Trustee: The Bank of New York Trust Company, N.A.  
719 Griswold Street  
Suite 930  
Detroit, MI 48226  
Attn: Global Corporate Trust  
Tel: (313) 967-4345  
Fax: (313) 967-5190

A duplicate copy of each notice given hereunder by either party hereto shall be given to the Trustee, the Authority and the Academy. Any person or entity listed above may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent. For purposes of this Section, "electronic means" shall mean telecopy or facsimile transmission or other similar electronic means of communication which produces evidence of transmission.

#### **Section 9.04. Additional Notices to Rating Agencies.**

The Trustee hereby agrees that if at any time (a) there is a change in the Trustee; (b) there are any modifications, supplements or amendments to this Indenture, Financing Agreement of which the Trustee has notice; or (c) all of the Bonds are paid in full; then, in each case, the Trustee shall promptly give notice of any such event to each Rating Agency then maintaining a rating on the Bonds, if any, which notice in the case of an event described in clause (b) above shall include a copy of any such amendment, modification or supplement.

#### **Section 9.05. Payments Due on Non-Business Days.**

In any case where the date of maturity of interest on or premium, if any, or principal of the Bonds or the date fixed for redemption of any Bonds shall not be a Business Day, then payment of such interest, premium or principal need not be made on such date but shall be made on the next succeeding Business Day, with the same force and effect as if made on the date of maturity or the date fixed for redemption, and, in the case of such payment, no interest shall accrue for the period from and after such date.

#### **Section 9.06. Interest Computation.**

The interest on the Bonds shall be computed on the basis of a 360-day year comprised of twelve 30-day months thereafter.

#### **Section 9.07. Binding Effect.**

This instrument shall inure to the benefit of and shall be binding upon the Authority and the Trustee and their respective successors and assigns, subject, however, to the limitations contained in this Indenture.

#### **Section 9.08. Captions.**

The captions or headings in this Indenture are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Indenture.

#### **Section 9.09. Governing Law.**

This Indenture shall be governed by and interpreted in accordance with the laws of the State.

#### **Section 9.10. Execution in Counterparts.**

This Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

## **ARTICLE X**

### **REQUESTS FOR INFORMATION**

#### **Section 10.01. Periodic Academy Filings.**

(a) The Trustee shall maintain a file (which may be in electronic form) of the Academy's quarterly filings of its unaudited statement of revenues, expenditures and changes in fund balances, together with its General Fund Budget and its end-of-year audited financial reports on the operations of the Academy during its just completed fiscal year, each to the extent made with the Trustee as required by the Financing Agreement.

(b) The Trustee shall maintain a file of any written requests for a copy of such reports, received by the Trustee from any Beneficial Owner of any Series 2007 Bond, which requests each must contain the Beneficial Owner's express representation and request to substantially this effect:

(i) The undersigned represents to the Trustee, the Authority and the Academy that the undersigned currently owns \$\_\_\_\_\_ aggregate principal amount of Michigan Public Educational Facilities Authority Limited Obligation Revenue Bonds (American Montessori Academy Project), Series 2007 which the undersigned purchased from \_\_\_\_\_.

(ii) This is a continuing request to the Trustee to provide to the undersigned, at the address set forth below or such other address as we hereafter in writing tell the Trustee, a copy of each unaudited financial and budget report, end-of-year report of American Montessori Academy filed with the Trustee within the preceding 92 days and hereafter, until the undersigned in writing terminates this request or none of the Bonds is any longer Outstanding.

Address of the undersigned: \_\_\_\_\_  
\_\_\_\_\_

(c) The Trustee shall honor each written request that it receives, as described in subsection (b) above, in accordance with its terms.

(d) Nothing in this Section 10.01 imposes on the Trustee any duty, express or implied, to investigate or verify the truth of any statement made by the Academy in response to any such written request, or to examine any such report received from the Academy, or to provide a copy of any such report to anyone, who has not made a request therefor in the form, prescribed in subsection (b) above.

**Section 10.02. Requests to the Academy.**

(a) The Trustee agrees that for as long as the Financing Agreement is in effect, if anyone who represents that it is a Beneficial Owner of a Series 2007 Bond by delivering to the Trustee a signed statement substantially to the effect of paragraph (i) in Section 10.01(b) above (a “Requesting Bondholder”) requests the Trustee to request from the Academy, for and on behalf of such beneficial owner, access to information and the opportunity to ask questions and receive answers concerning the legal status, financial condition, student count and any other relevant matters which the Requesting Bondholder in its discretion determines is necessary regarding the Academy, the Trustee accordingly will make such request to the Academy. The Trustee further agrees to provide to such Requesting Bondholder a complete copy of whatever the Trustee receives from the Academy in response to such request. The Trustee reserves the right to provide such information it receives from the Academy or the Authorizing Body to a Requesting Bondholder via electronic mail or media. Requests for physical hard copies shall incur a reasonable fee to be paid by the Requesting Bondholder.

(b) Nothing in this Section 10.02 imposes on the Trustee any duty, express or implied, to investigate or verify the truth of any statement made by the Academy in response to any such written request, or to examine anything received from the Academy, or to provide a copy of any such information or material to anyone other than a Requesting Bondholder. The Trustee reserves the right to provide such information it receives from the Academy or the Authorizing Body to a Requesting Bondholder via electronic mail or media. Requests for physical hard copies shall incur a reasonable fee to be paid by the Requesting Bondholder.

**Section 10.03. Requests to Authorizing Body.**

(a) The current authorizing body of the Academy is Bay Mills Community College Board of Regents (which, or any subsequent authorizing body of the Academy, is below called the “Authorizing Body”). The Trustee agrees that for as long as the Financing Agreement is in effect:

(i) if pursuant to Section 10.02 above the Trustee has, on behalf of a Requesting Bondholder, requested but been unable to receive such information from the Academy, then if the Requesting Bondholder further asks the Trustee to request such information from the Authorizing Body, the Trustee accordingly will make such request to the Authorizing Body; and the Trustee further agrees to provide to such Requesting Bondholder a complete copy of whatever the Trustee receives from the Authorizing Body in response to such request; and

(ii) if a Requesting Bondholder asks the Trustee to request any of the below-listed information from the Authorizing Body, the Trustee accordingly will make such request to the Authorizing Body; and the Trustee further agrees to provide to such Requesting Bondholder a complete copy of whatever the Trustee receives from the Authorizing Body in response to such request:

1. Quarterly or annual financial statements of the Academy;
2. The initiation of proceedings by the Authorizing Body, including the issuance of notice to show compliance, to revoke or suspend the Academy's charter;
3. Written notice received from the Academy regarding voluntary election to terminate its contract;
4. Enrollment data; and
5. Other monetary obligations of the Academy for which any of its state school aid payments are pledged.

(b) Nothing in this Section 10.03 imposes on the Authorizing Body any duty, express or implied, to furnish any requested data. Further, nothing in this Section 10.03 imposes on the Trustee any duty, express or implied, to investigate or verify the truth of any statement made by the Authorizing Body in response to any written request it receives from a Requesting Bondholder, or to examine anything received from the Authorizing Body, or to provide a copy of any such information or material to anyone other than a Requesting Bondholder. The Trustee reserves the right to provide such information it receives from the Academy or the Authorizing Body to a Requesting Bondholder via electronic mail or media. Requests for physical hard copies shall incur a reasonable fee to be paid by the Requesting Bondholder.

[The remainder of this page is left blank intentionally.]



(Signatures to Trust Indenture)

IN WITNESS WHEREOF, the Authority has executed this Indenture by one of its authorized officers and the Trustee has caused this Indenture to be executed in its name by its duly authorized officer, all as of the day and year first above written.

**MICHIGAN PUBLIC EDUCATIONAL  
FACILITIES AUTHORITY**

By: \_\_\_\_\_  
Kathleen K. O'Keefe  
Its: Authorized Officer

**THE BANK OF NEW YORK TRUST  
COMPANY, N.A., as Trustee**

By: \_\_\_\_\_  
Allen L. Golson  
Its: Vice President

EXHIBIT A

FORM OF FIXED RATE SERIES 2007 BOND

R-\_\_

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Authority or its agent for registration of transfer, exchange, or payment, and any Bond is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

UNITED STATES OF AMERICA  
STATE OF MICHIGAN

MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY  
LIMITED OBLIGATION REVENUE BONDS  
(AMERICAN MONTESSORI ACADEMY PROJECT)  
SERIES 2007

INTEREST	MATURITY	DATE OF	
RATE	DATE	ORIGINAL ISSUE	CUSIP
	_____	_____, _____	_____

Registered Owner:

Principal Amount:

FOR VALUE RECEIVED, the Michigan Public Educational Facilities Authority (the "Authority") hereby promises to pay to the Registered Owner specified above, or registered assigns, upon surrender hereof, at the principal corporate trust or other designated office of the Trustee named below, on the Maturity Date specified above, unless redeemed prior thereto, the Principal Amount specified above, together with interest thereon at the interest rate specified above from the authentication date hereof or such later date to which interest has been paid, but only from the sources and in the manner hereinafter provided on each June 1 and December 1

(each an "Interest Payment Date") until the principal hereof is paid or duly provided for upon redemption or maturity. Payment of the principal of, redemption premium, if any, and interest on this Bond shall be made in lawful money of the United States of America which at the time of payment is legal tender for payment of public and private debts. Unless other arrangements are made pursuant to Section 2.02 of the Indenture (hereinafter defined), interest is payable by check or draft of the Trustee mailed when due to the registered holder hereof at the close of business on the 15th day of the month immediately preceding any Interest Payment Date at the address of such holder as it appears on the Bond registration books of the Authority maintained by the Trustee (the "Bond Register").

Interest on this Bond shall be computed on the basis of a 360-day year consisting of twelve months of thirty days each.

This Bond is one of an authorized series of bonds of the Authority designated "Limited Obligation Revenue Bonds (American Montessori Academy Project), Series 2007", and issued in the aggregate principal amount of \$\_\_\_\_\_ (the "Bonds"), for the purpose of acquiring an obligation (the "Municipal Obligation") of American Montessori Academy (the "Academy") so as to enable the Academy to finance the acquisition of land and the acquisition of a public school academy facility (collectively, the "Project").

The Bonds are issued pursuant to and in full compliance with the Constitution and laws of the State of Michigan, Executive Order No. 2002-3, compiled at §12.192 of the Michigan Compiled Laws, the Shared Credit Rating Act, Act No. 227 of the Public Acts of 1985 of the State, as amended, and the Michigan Strategic Fund Act, Act No. 270 of the Public Acts of 1984 of the State, as amended, and pursuant to a resolution of the Authority adopted on October 18, 2007 (the "Resolution") and a Trust Indenture (the "Indenture") dated as of December 1, 2007, between the Authority and The Bank of New York Trust Company, N.A., as Trustee (the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Indenture.

THIS BOND AND THE INTEREST THEREON SHALL NEVER CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE STATE OF MICHIGAN OR THE AUTHORITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION AND SHALL NEVER CONSTITUTE NOR GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE STATE OF MICHIGAN OR GENERAL FUNDS OR ASSETS OF THE AUTHORITY (INCLUDING FUNDS PERTAINING TO OTHER LOANS OR ACTIVITIES OF THE AUTHORITY), BUT SHALL BE A LIMITED OBLIGATION OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED BY THE "SECURITY," ALL AS DEFINED AND PROVIDED AND SUBJECT TO LIMITATIONS SET FORTH IN THE RESOLUTION AND THE INDENTURE, WHICH RESOLUTION AND INDENTURE ARE HEREBY INCORPORATED HEREIN. THE BONDS AND INTEREST DUE THEREON ARE NOT A GENERAL OBLIGATION DEBT OR LIABILITY OF THE AUTHORITY AND DO NOT CONSTITUTE OR GIVE RISE TO ANY PECUNIARY LIABILITY OR CHARGE AGAINST THE GENERAL CREDIT OF THE AUTHORITY, BUT ARE A LIMITED OBLIGATION OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED BY THE "SECURITY," AS DEFINED IN THE

INDENTURE, FOR THE EQUAL AND RATABLE BENEFIT OF THE HOLDERS, FROM TIME TO TIME, OF THE BONDS. THE AUTHORITY HAS NO TAXING POWER.

THE BONDHOLDER, BY THE ACCEPTANCE HEREOF, ASSENTS TO ALL PROVISIONS OF THE INDENTURE AND THE FINANCING AGREEMENT. THE AUTHORITY, AND ITS MEMBERS, OFFICERS, AND EMPLOYEES SHALL NOT BE LIABLE, DIRECTLY OR INDIRECTLY, FOR PAYMENT OF PRINCIPAL, PREMIUM, IF ANY, OR INTEREST ON THIS BOND OR FOR ANY OTHER PECUNIARY LIABILITY IN ANY WAY RELATING THERETO, EXCEPT FROM THE SECURITY.

The Academy has executed and delivered to the Authority, and the Authority has assigned to the Trustee, the Academy's Financing Agreement (the "Financing Agreement"), in the principal amount of the Bonds. Under the Municipal Obligation and the Financing Agreement, the Academy is obligated to repay the Municipal Obligation by making payments at such times and in such amounts (the "Academy Repayments") as shall be required to pay the principal of, premium, if any, and interest on the Bonds, as the same become due (the "Debt Service"). In the Indenture, the Authority has assigned to the Trustee, to provide for payment of Debt Service on the Bonds, the Authority's right, title and interest in and to the Financing Agreement, except for the Authority's Unassigned Rights, as defined in the Indenture. The Academy has caused additional security to be provided to the Trustee in the form of a mortgage in the Project property.

The Security includes a security interest in the Financing Agreement (except for the Authority's Unassigned Rights) and the Academy Repayments and in any other moneys held by the Trustee under the Indenture. The Debt Service on the Bonds is payable solely from the Security, and is an obligation of the Authority only to the extent of the Security. The Bonds are not secured by a pledge of the faith and credit of the Authority, the State of Michigan or any political subdivision thereof.

No recourse under or upon any obligation, covenant, acceptance or agreement contained in the Indenture, or in any of the Bonds, or under any judgment obtained against the Authority, or by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any constitution or statute or otherwise, or under any circumstances, shall be had against any employee or officer, as such, past present, or future, of the Authority or any receiver thereof, or for or to any Holder of any Bond, or otherwise, of any sum that may be due and unpaid by the Authority upon any of the Bonds. Any and all personal liability of every nature, whether at common law or in equity, or by statute or by constitution or otherwise, of any such member or officer, as such to respond by reason of any act or omission on his or her part, or otherwise, for directly or indirectly, the payment for or to the Authority or any receiver thereof, or for or to the owner or any Holder of any bond, or otherwise, of any sum that may remain due and unpaid upon any bond, shall be deemed to be and is hereby expressly waived and released as a condition of and consideration for the execution and delivery of the Indenture and the issuance of the Bonds.

The Bonds are issuable as fully registered Bonds in the denomination of \$100,000 or any integral multiple of \$5,000 in excess thereof (the "Authorized Denominations"). This Bond, upon surrender hereof at the principal corporate trust office of the Trustee with a written

instrument of transfer satisfactory to the Trustee executed by the registered holder hereof or his attorney duly authorized in writing, may, at the option of the registered holder hereof, be exchanged for an equal aggregate principal amount of Bonds of any other Authorized Denomination. This Bond is transferable as provided in the Indenture, subject to certain limitations therein contained, only upon the Bond Register and only upon surrender of this Bond for transfer to the Trustee duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Trustee duly executed by the registered holder hereof or his attorney duly authorized in writing. Thereupon, one or more new Bonds of Authorized Denominations and in the same aggregate principal amount will be issued to the designated transferee or transferees.

The Authority has established a book-entry only system of registration for the Bonds. Except as specifically provided otherwise in the Indenture, a nominee of a securities depository will be the registered owner and will hold this Bond on behalf of the beneficial owners hereof. By acceptance of a confirmation of purchase, delivery or transfer, the beneficial owners of this Bond shall be deemed to have agreed to this arrangement. The nominee, as registered owner of this Bond, shall be treated as the owner hereof for all purposes.

#### **REDEMPTION OF BONDS**

The Bonds are not subject to redemption prior to maturity except as hereinafter provided.

##### **Optional Redemption**

Except as provided below the Series 2007 Bonds are not subject to redemption prior to their respective maturity dates. Series 2007 Bonds are subject to redemption at the option of the Authority, as directed in writing by the Academy, in whole or in part at any time on or after December 1, 2017 in multiples of \$5,000 at the redemption price plus accrued interest to the redemption date as set forth below; provided that no Bond may be redeemed in part if the principal amount to be outstanding following such partial redemption is not an Authorized Denomination) and in such order of maturity as the Academy shall direct, at the redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption.

##### **Mandatory Sinking Fund Redemption**

The Bonds maturing December 1, 2037 are subject to mandatory sinking fund redemption on December 1, 2012 and on each December 1 thereafter at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date from amounts on deposit in the Revenue Fund as follows:

##### **Term Bond Maturing December 1, 2037**

###### **Date**

###### **Principal Amount**

##### **\*\* Maturity Date**

##### **Mandatory Redemption Upon Determination of Taxability**

The Bonds shall be subject to mandatory redemption prior to maturity, as a whole and not in part, on the earliest practicable date for which notice can be given following the occurrence of a Determination of Taxability, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date.

##### **Mandatory Redemption from Insurance and Condemnation Proceeds**

The Bonds are subject to mandatory redemption in whole at any time or in part (and if in part in Authorized Denominations; provided that no Bond may be redeemed in part if the principal amount to be outstanding following such partial redemption is not an Authorized Denomination) on any Interest Payment Date, at a redemption price equal to 100% of the aggregate principal amount of the Bonds to be redeemed plus accrued interest to the redemption date, in an amount equal to any insurance or condemnation proceeds deposited with the Trustee for the purpose of redemption pursuant to the Financing Agreement.

##### **Partial Redemption**

If less than all the Outstanding Bonds are called for redemption, the Trustee shall select, or arrange for the selection of, the Bonds to be redeemed by lot, in such manner as it shall in its discretion determine; provided that no Bond may be redeemed in part if the principal amount to be outstanding following such partial redemption is not an Authorized Denomination. Notwithstanding the foregoing, Bonds held for the account of the Academy or any affiliate of the Academy ("Academy Bonds") shall be first selected by the Trustee for redemption before any other Bonds are selected for redemption. If less than the principal amount of a Bond is called for redemption, the Authority shall execute and the Trustee shall authenticate and deliver, upon surrender of such Bond, without charge to the owner thereof, in exchange for the unredeemed principal amount of such Bond, at the option of such owner, Bonds in any of the Authorized Denominations.

##### **Notice of Redemption**

Notice of redemption shall be mailed by the Trustee by first class mail at least 30 days but not more than 45 days before any redemption date to the Registered Owner of each Bond to be redeemed in whole or in part at its last address appearing on the Bond Register; provided, however, that failure to give such notice by mailing, or any defect therein, shall not affect the

validity of any proceedings for the redemption of any Bond or a portion thereof with respect to which no such failure or defect has occurred. In addition, the Trustee may give such other notice or notices as may be recommended in releases, letters, pronouncements or other writings of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. Any notice mailed as provided above shall be conclusively presumed to have been duly given, whether or not the Bondholder receives the notice. All Bonds so called for redemption will cease to bear interest on the specified date set for redemption, provided funds for their redemption have been duly deposited with the Trustee pursuant to the Indenture and, thereafter, the holders of such Bonds called for redemption shall have no rights in respect thereof except to receive payment of the redemption price from the Trustee and a new Bond for any portion not redeemed in any of the Authorized Denominations.

#### Certain Other Provisions

If provision is made for the payment of principal of, premium, if any, and interest on this Bond in accordance with the Indenture, this Bond shall no longer be deemed Outstanding under the Indenture, shall cease to be entitled to the benefits of the Indenture, and shall thereafter be payable solely from the funds provided for payment.

Under certain circumstances as described in the Indenture, the principal of all the Bonds may be declared due and payable in the manner and with the effect provided in the Indenture. Immediately following any such declaration, the Trustee shall mail notice of such declaration by first class mail to each holder of Bonds at his last address appearing on the Bond Register. Any defect in or failure to give such notice of such declaration shall not affect the validity of such declaration.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations, if any, of the Authority, the Academy and the holders of the Bonds at any time with the consent of the holders of a majority in aggregate principal amount of the Bonds at the time Outstanding which are affected by such modifications. The Indenture also permits amendments and supplements to the Indenture and the Financing Agreement, without requiring the consent of any Bondholders in certain specifically described instances. The Indenture also contains provisions permitting holders of a majority in aggregate principal amount of the Bonds at the time Outstanding, on behalf of all the holders of all Bonds, to waive compliance by the Authority and the Academy with certain provisions of the Indenture and their consequences. Any such consent or waiver by the holder of this Bond shall be conclusive and binding upon such holder and on all future holders of this Bond and of any Bond issued in lieu hereof whether or not notation of such consent or waiver is made upon this Bond. Supplements and amendments to the Indenture or the Financing Agreement may be made only to the extent and in circumstances permitted by the Indenture.

The holder of this Bond shall have no right to enforce the provisions of the Indenture or the Financing Agreement, or to institute action to enforce the covenants therein, or to take any action with respect to a default under the Indenture or the Financing Agreement, or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided under certain limited circumstances described in the Indenture; provided, however, that nothing contained in the Indenture shall affect or impair any right of enforcement conferred on the holder

hereof by the Enabling Legislation to enforce (i) the payment of the principal of and premium, if any, and interest on this Bond at and after the maturity thereof, or (ii) the obligation of the Authority to pay the principal of and premium, if any, and interest on this Bond to the holder hereof at the time, place, from the source and in the manner as provided in the Indenture.

The holder of this Bond, by acceptance hereof, consents to all of the terms and provisions of the Indenture and the Financing Agreement.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED, that all acts, conditions and things required to exist, happen and be performed precedent to the execution and delivery of the Indenture and the issuance of this Bond and the issue of which it is a part, do exist, have happened and have been timely performed in regular form and manner as required by law, and the issuance of this Bond, together with all other obligations of the Authority, does not exceed or violate any constitutional or statutory limitation of the Authority.

Unless the certificate of authentication hereon has been executed by the Trustee by manual signature of one of its authorized signers, this Bond shall not be entitled to any benefit under the Indenture, or be valid or obligatory for any purpose.

[The remainder of this page is left blank intentionally.]

IN WITNESS WHEREOF, the Michigan Public Educational Facilities Authority has executed this Bond by the manual or facsimile signature of its Executive Director as of the Date of Original Issue set forth above.

**MICHIGAN PUBLIC EDUCATIONAL  
FACILITIES AUTHORITY**

By: \_\_\_\_\_

Its: \_\_\_\_\_

**TRUSTEE'S CERTIFICATE OF AUTHENTICATION**

This Bond is one of the Bonds described in the within-mentioned Indenture.

**THE BANK OF NEW YORK TRUST  
COMPANY, N.A., as Trustee**

By: \_\_\_\_\_

Its: \_\_\_\_\_

Authentication Date: \_\_\_\_\_

**[FORM OF ASSIGNMENT]**

For value received, the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_

\_\_\_\_\_

(Name and Address of Assignee)

(Taxpayer I.D. No. \_\_\_\_\_)

the within Bond and does hereby irrevocably constitute and appoint \_\_\_\_\_  
\_\_\_\_\_, the within Bond and does hereby irrevocably  
constitute and appoint \_\_\_\_\_, attorney to transfer such Bond  
on the books kept for registration and transfer of the within Bond, with full power of substitution  
in the premises.

Dated: \_\_\_\_\_ [Signature]

NOTICE: The signature(s) to this Assignment must correspond with the name as it appears upon the face of the Bond in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed: \_\_\_\_\_

NOTICE: Signature(s) must be guaranteed by an eligible guarantor institution as defined by SEC Rule 17Ad-15 (17 CFR 240.17Ad-15) participating in a Securities Transfer Association recognized signature guarantee program.

EXHIBIT B

DESCRIPTION OF SERIES 2007 BONDS

Dated Date: December 20, 2007

**MATURITY DATE, AMOUNT AND INTEREST RATE**

<b>Term Bond</b>				
\$3,900,000	Term Bond due December 1, 2037	Interest Rate 6.500%	Yield 6.500%	CUSIP: 594569 CM5

**MANDATORY SINKING FUND REDEMPTION PROVISIONS**

**Term Bond Maturing  
December 1, 2037**

<b>Date</b>	<b>Principal Amount</b>
12/01/12	\$ 60,000
12/01/13	65,000
12/01/14	70,000
12/01/15	75,000
12/01/16	80,000
12/01/17	85,000
12/01/18	90,000
12/01/19	95,000
12/01/20	100,000
12/01/21	110,000
12/01/22	115,000
12/01/23	120,000
12/01/24	130,000
12/01/25	140,000
12/01/26	150,000
12/01/27	155,000
12/01/28	170,000
12/01/29	180,000
12/01/30	190,000
12/01/31	200,000
12/01/32	215,000
12/01/33	230,000
12/01/34	245,000
12/01/35	260,000
12/01/36	275,000
12/01/37**	295,000

\*\* Maturity Date

**FINANCING AGREEMENT**

Between

**MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY,**

**AND**

**AMERICAN MONTESSORI ACADEMY**

Dated as of December 1, 2007

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## FINANCING AGREEMENT

This Financing Agreement (hereinafter "Agreement") is made and entered into as of December 1, 2007 among the **MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY** (the "Authority"), and **AMERICAN MONTESSORI ACADEMY** (the "Academy").

### PREMISES

The Authority has been created by the Enabling Legislation for, among other purposes, the purpose of assisting governmental units, as defined in the Enabling Legislation, including public school academies established under the revised school code, by purchasing municipal obligations in fully marketable form issued by governmental units and by lending money to (a) governmental units including public school academies and (b) other nonprofit entities for the benefit of public school academies.

The School Code authorizes public school academies to acquire by purchase, gift, devise, lease, sublease, installment purchase agreement, land contract, option, or by other means, hold and own in its own name, buildings and other property for school purposes, and interests therein, and other real and personal property, including but not limited to, interests in property subject to mortgages, security interests, or other liens, necessary or convenient to fulfill its purposes.

The School Code also authorizes public school academies to borrow money and issue bonds to defray all or a part of the cost of purchasing, erecting, completing, remodeling, or equipping, or reequipping, except for equipping or reequipping for technology, school buildings, including library buildings, structures, athletic fields, playgrounds, or other facilities, or parts of or additions to those facilities; furnishing or refurnishing new or remodeled school buildings; acquiring, preparing, developing, or improving sites, or parts of or additions to sites, for school buildings, including library buildings, structures, athletic fields, playgrounds, or other facilities; purchasing school buses; acquiring, installing, or equipping or reequipping school buildings for technology or accomplishing a combination of these purposes.

The School Code also authorizes public school academies to enter into agreements and take actions in connection with the operation and maintenance of a public school academy.

The Academy has determined that it has a need to acquire certain real property and real property improvements and purchase certain new equipment in furtherance of its educational objectives.

The Authority pursuant to this Agreement will acquire the obligation of the Academy to make certain payments.

In consideration of these Premises and their mutual agreements, the Authority and the Academy agree as follows:

## ARTICLE I

### DEFINITIONS

Section 101. Definitions. Words and phrases capitalized herein and not defined below shall have the meanings ascribed to them in the Indenture and the Resolution adopted by the Authority on October 18, 2007 authorizing the Series 2007 Bonds. In addition, the following words and phrases as used throughout this Agreement shall have the following meanings unless the context or use clearly indicates another or different meaning or intent:

"Academy Documents" means this Agreement, the Bond Purchase Agreement, the Mortgage, the State Aid Agreement, the Continuing Disclosure Agreement, and all other documents executed by the Academy in connection with this financing.

"Additional Payments" means all payments required by the Academy under this Agreement (including but not limited to Fee Payments and Reserve Fund Payments) other than Bond Payments.

"Agreement" means this Financing Agreement as the same may be amended or supplemented in accordance with its terms and the terms of the Indenture.

"Authorized Academy Representative" means the Board President of the Academy or any other officer of the Academy authorized to act in such capacity by a resolution adopted by the Board of the Academy.

"Authorizing Body" means Bay Mills Community College Board of Regents.

"Bond Counsel" means a firm of nationally recognized attorneys at law acceptable to the Authority and experienced in legal work relating to the issuance of bonds the interest on which is excluded from gross income for federal income tax purposes under Section 103(a) of the Code.

"Bond Documents" means this Agreement, the Municipal Obligation, the Indenture and the Bond Purchase Agreement.

"Bond Payment Date" means with respect to the Series 2007 Bonds June 1, 2008 and each June 1 and December 1 thereafter with respect to interest and each December 1, with respect to principal.

"Bond Payments" means the amounts payable by the Academy under its Municipal Obligation allocable to the repayment of principal of, or interest or redemption under the Municipal Obligation which do not consist of Scheduled Fee Payments.

"Bond Purchase Agreement" means the Bond Purchase Agreement dated December 7, 2007 among the Authority, the Academy and Fifth Third Securities, Inc.

"Bondholder" means the registered owner of any Series 2007 Bond.

“Charter” means the Academy’s Contract with its Authorizing Body, together with its Articles of Incorporation and Bylaws.

“Charter School” means a public school, as defined by the U.S. Department of Education in conjunction with the The Credit Enhancement for Charter School Facilities Program, that:

- (A) in accordance with specific State statute authorizing the granting of charters to schools, is exempted from significant State or local rules that inhibit the flexible operation and management of public schools, but not from any rules relating to the other requirements of this paragraph;
- (B) is created by a developer as a public school, or is adapted by a developer from an existing public school, and is operated under public supervisions and direction;
- (C) has a specific set of educational objectives determined by the school’s developer and agreed to by the authorized public chartering agency;
- (D) provides a program of elementary or secondary education, or both;
- (E) is nonsectarian in its programs, admissions policies, employment practices, and all other operations, and is not affiliated with a sectarian school or religious institution;
- (F) does not charge tuition;
- (G) complies with the Age Discrimination Act of 1975, Title VI of the Civil Rights Act of 1964, Title IX of the Education Amendments of 1972, section 504 of the Rehabilitation Act of 1973, and part B of the Individuals with Disabilities Education Act;
- (H) is a school to which parents choose to send their children, and that admits students on the basis of a lottery, if more students apply for admission than can be accommodated;
- (I) agrees to comply with the same Federal and State audit requirements as do other elementary and secondary schools in the State, unless such requirements are specifically waived;
- (J) meets all applicable Federal, State, and local health and safety requirements;
- (K) operates in accordance with State law; and

- (L) has a written performance contract with the authorized public chartering agency in the State that includes a description of how student performance will be measured in charter schools pursuant to State assessments that are required of other schools and pursuant to any other assessments mutually agreeable to the authorized public chartering agency and the charter school.

“Closing Date” means the date of the initial delivery of the Series 2007 Bonds.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations proposed and promulgated from time to time thereunder and under the predecessor code.

“Completion Certificate” means the certificate provided for in Section 604 hereof, in the form of Exhibit D hereto.

“Completion Date” means the date of the final completion of the Project as certified in the Completion Certificate.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement between the Academy and the Trustee dated as of December 1, 2007.

“Costs of Issuance” has the meaning given in Section 202(z) of this Agreement.

“Default” and “Event of Default” means those defaults and events of default, respectively, specified and defined in Section 901.

“Enabling Legislation” shall mean Executive Order No. 2002-3, compiled at §12.192 of the Michigan Compiled Laws, the Shared Credit Rating Act, Act No. 227 of the Public Acts of 1985 of the State, as amended, and the Michigan Strategic Fund Act, Act No. 270 of the Public Acts of 1984 of the State, as amended.

“Favorable Opinion of Bond Counsel” means an opinion of Bond Counsel addressed to the Authority and the Trustee to the effect that the action proposed to be taken is not prohibited by the laws of the State or the Bond Documents and will not adversely affect any exclusion from gross income for federal income tax purposes of interest on the Series 2007 Bonds.

“Fee Payments” mean the fee payments required by Section 407 hereof.

“Indenture” means the Trust Indenture between the Authority and The Bank of New York Trust Company, N.A, a national banking association, as trustee, dated as of December 1, 2007, as the same may be amended or supplemented in accordance with its terms.

“Interest Payment Date” means, with respect to the Series 2007 Bonds, each June 1 and December 1.

“Mortgage” means the Future Advance Mortgage dated December 1, 2007 from the Academy in favor of the Trustee with respect to the Site.

“Municipal Obligation” means the School Building and Site Bond, Series 2007 of the Academy dated as of December 20, 2007 in substantially the form of Exhibit E attached hereto.

“Net Proceeds” means any insurance proceeds or condemnation award paid with respect to the Project remaining after payment therefrom of all expenses incurred in the collection thereof.

“Non-Arbitrage Certificate” means, collectively, the Non-Arbitrage and Tax Compliance Certificate delivered by the Authority and the Academy in connection with the initial delivery of the Series 2007 Bonds.

“Other Obligations” means obligations of the Academy incurred pursuant to and permitted by Section 707.

“Payment Date” has the meaning given in Section 405 hereof.

“Pledged State Aid” has the meaning given in Section 405 hereof.

“Principal Amount” means \$3,900,000 being the aggregate principal amount of the Series 2007 Bonds.

The term “principal,” when used with reference to the principal of the Series 2007 Bonds, means principal of the Series 2007 Bonds and, where appropriate, any premium in addition to principal due upon redemption of the Series 2007 Bonds.

“Project” means the acquisition of the Site as more fully described on Exhibit B hereto including related Project Costs.

“Project Costs” means, with respect to the Project, (a) acquisition costs under the Purchase Contract; (b) obligations of the Authority or the Academy incurred for labor and materials and to contractors, builders and materialmen in connection with the acquisition, construction and improvement of the Project; (c) the cost of bonds and of insurance of all kinds that may be required or necessary during the course of construction and improvement of the Project which is not paid by the contractor or contractors or otherwise provided for and taxes and other municipal governmental charges levied or assessed during construction upon the Project; (d) all costs of architectural, environmental and engineering services, including the expenses of the Academy for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction, as well as for the performance of all other duties required by or consequent upon acquisition of the Project or the proper construction and improvement of the Project; (e) all other costs which the Academy shall be required to pay, under the terms of any contract or contracts, for the acquisition, construction, installation, reconstruction, restoration, renovating, equipping and furnishing of the Project; (f) Costs of Issuance not to exceed \$300,000; (g) other costs of a nature comparable to those described in clauses (a) through (f) above which the Academy shall be required to pay as a result of the damage, destruction, condemnation or taking of the Project or any portion thereof; (h) interest on the Series 2007 Bonds; (i) proceeds of the Series 2007 Bonds used to fund a debt service reserve

fund; and (j) any other costs incurred by the Academy which are properly chargeable to the Project and which may be financed by the Series 2007 Bonds under the Enabling Legislation. Project Costs do not include:

(a) Upgrades to operating system or application software;

(b) Media, including diskettes, compact discs, video tapes, and disks, unless used for storage of initial operating system software or customized application software included in the definition of technology under MCL 380.1351a(5); or

(c) Training, consulting, maintenance, service contracts, software upgrades, troubleshooting, or software support.

“Purchase Contract” means the purchase agreement, dated January 10, 2007, as amended on February 1, 2007 and on October 3, 2007 between the Academy and Middlebelt Holdings, LLC for the purchase of land and buildings located at 14800 Middlebelt Road, Livonia, Michigan 48154.

“Reserve Fund Payments” has the meaning given in Section 401 hereof.

“Scheduled Fee Payment Component” means the portion of the Scheduled Installment Payment to be intercepted and allocated to Fee Payments, as set forth on Exhibit A.

“Scheduled Installment Payment” means the scheduled amounts payable by the Academy as set forth on Exhibit A and under the State Aid Agreement, which consist of a Scheduled Principal Component, a Scheduled Interest Component, a Set-Aside Component, and a Scheduled Fee Payment Component.

“Scheduled Interest Component” means the portion of the Scheduled Installment Payment to be intercepted and allocated to a payment of the interest on this obligation and the Municipal Obligation, as set forth on Exhibit A.

“Scheduled Principal Component” means the portion of the Scheduled Installment Payment to be intercepted and allocated to repayment of the principal amount of this obligation and the Municipal Obligation, as set forth on Exhibit A.

“Series 2007 Bonds” means \$3,900,000 Michigan Public Educational Facilities Authority Limited Obligation Revenue Bonds (American Montessori Academy Project), Series 2007.

“Set-Aside Component” means the portion of the Scheduled Installment Payment to be intercepted and allocated for the payment of principal of and/or interest on the Series 2007 Bonds in the calendar month(s) in which no Payment Date for State School Aid exists, as set forth on Exhibit A.

“Site” means the real property described in Exhibit B hereto, the facility thereon and the related improvements, including related Project Costs.

“State” means State of Michigan.

“State Aid Agreement” means the State Aid Agreement dated as of December 1, 2007 among the State Treasurer of the State of Michigan, the Authority, the Academy and the acknowledged by Bay Mills Community College Board of Regents.

“State School Aid” means the state school aid payments payable to the Academy pursuant to the School Aid Act.

“Unassigned Rights” means the right of the Authority to make all determinations and approvals and receive all notices accorded to it under this Agreement and to enforce in its name and for its own benefit the provisions of Section 407, Section 502 and Section 903 of this Agreement with respect to the Authority fees and expenses, and indemnity payments as the interests of the Authority and related persons shall appear.

“Underwriter” means Fifth Third Securities, Inc. and any successor thereto.

## ARTICLE II

### REPRESENTATIONS

Section 201. Representations of the Authority. The Authority makes the following representations:

(a) The Authority is a body corporate and politic established and acting pursuant to the Enabling Legislation with full authority under the Enabling Legislation to issue the Series 2007 Bonds and execute and enter into this Agreement, the Indenture, the State Aid Agreement and the Bond Purchase Agreement.

(b) All of the proceedings approving this Agreement, the Indenture, the State Aid Agreement and the Bond Purchase Agreement were conducted by the Authority at meetings which complied with Act 267, Michigan Public Acts, 1976, as amended.

(c) No member of the Authority is directly or indirectly a party to or in any manner whatsoever interested in this Agreement, Indenture, Series 2007 Bonds or the proceedings related thereto.

Section 202. Representations of the Academy.

(a) The Academy is a public school academy established in accordance with the provisions of the Revised School Code (the “School Code”) and is a Charter School as defined by the U.S. Department of Education's Credit Enhancement for Charter School Facilities Program and has, and on the Closing Date, will have, full legal right, power and authority (i) to enter into the Academy Documents and to issue the Municipal Obligation, and (ii) to sell, pledge and assign to the Authority the state aid payments to be allocated and paid to the Academy as provided herein and the Academy has duly authorized and approved the execution and delivery of and the performance by the Academy of its obligations contained in the Municipal Obligation

and the Academy Documents; and the Academy Documents and the Municipal Obligation have been duly authorized, executed and delivered by, and assuming due authorization by the other parties thereto, if any, are valid and binding obligations of the Academy.

(b) Neither the authorization, execution or delivery of this Agreement, the Bond Purchase Agreement and the Municipal Obligation, the consummation of the transactions contemplated by this Agreement, the Bond Purchase Agreement, the Indenture, and the Municipal Obligation nor the fulfillment of or compliance with the terms and conditions of this Agreement, the Bond Purchase Agreement and the Municipal Obligation will require any consent or approval of the governing board of the Academy or its Authorizing Body which has not been obtained, or violate any provision of law, any order of any court or other agency of government, the Charter, or any indenture, agreement or other instrument to which the Academy is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under its Charter or any such indenture, agreement or other instrument, or, except as provided hereunder, result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Academy.

(c) No litigation or governmental proceeding is pending or, to the knowledge of the officers of the Academy, threatened against the Academy which could have a material adverse effect on its financial condition or business, its power to make payments under this Agreement or the authority or incumbency of its officers or directors.

(d) The Academy intends to cause the Project to be operated at all times during the term of this Agreement as a “public school academy” as that term is defined in the Revised School Code and as a Charter School. All property which is to be financed or refinanced with the net proceeds of the Series 2007 Bonds will be owned by the Academy.

(e) Moneys which will be made available from the Authority under this Agreement and other sources will be sufficient to pay for the Project.

(f) The Academy reasonably believes that the revenues and income generally available or to become available to the Academy and payable to the Authority under this Agreement will be sufficient for allocation to and payment of the Series 2007 Bonds and interest thereon when due.

(g) The public school facility being acquired pursuant to this Agreement is needed by the Academy and does not result in an unnecessary duplication of existing facilities.

(h) Except for preliminary expenditures for architectural, engineering, surveying, soil testing, and similar costs (not including costs of land acquisition, site preparation, and similar costs incident to commencement of construction) that were incurred prior to commencement of acquisition, construction, renovation or rehabilitation of the facilities comprising the Project, and did not exceed in the aggregate 20 percent of the issue price of the Series 2007 Bonds, and except for costs of issuance and other costs not in excess of the lesser of \$100,000 or 5 percent of the proceeds of the Series 2007 Bonds, no proceeds of the 2007 Bonds

were or will be allocated to the reimbursement of an expenditure for costs of the Project paid more than 60 days prior to January 10, 2007.

(i) Proceeds of the Series 2007 Bonds will not exceed the cost of the Project and incidental costs related thereto and to the issuance of the Series 2007 Bonds.

(j) The Academy is not in default in any material respect under any order, writ, judgment, injunction, decree, determination or award or any indenture, agreement, lease or instrument. The Academy is not in default under any law, rule or regulation wherein such default could materially adversely affect the Academy or the ability of the Academy to perform its obligations under the Academy Documents.

(k) No more than 10 percent of the proceeds of the Series 2007 Bonds will be used directly or indirectly in a trade or business carried on by any person other than a governmental unit (a "private business use"). No more than 5 percent of the proceeds of the Series 2007 Bonds will be used for any private business use that is not related to governmental purposes of the Authority or the Academy or that, although related to governmental purposes of the Authority or the Academy, exceeds the amount of Series 2007 Bond proceeds used for governmental purposes of the Authority or the Academy other than a related private business use. No more than 5 percent of the proceeds of the Series 2007 Bonds will be used directly or indirectly to make or finance loans to persons other than governmental units or loans for purposes other than enabling a borrower to finance any governmental tax or assessment of general application for a specific essential governmental function such as the Project.

(l) The weighted average maturity of the Series 2007 Bonds is not greater than 120% of the average reasonably expected economic life of the facilities being financed or refinanced by the Series 2007 Bonds, as determined pursuant to Section 147(b) of the Code.

(m) There are no contracts or other arrangements providing for private business use or ownership of any property to be financed by proceeds of the Series 2007 Bonds, and the Academy covenants not to enter into any such contracts or arrangements during the term of this Agreement, including any contracts or arrangements for the provision of medical services, food services, management services, or any other types of services, except contracts and arrangements which satisfy the requirements of Rev. Proc. 97-13 or other applicable regulations under the Code.

(n) The Academy will comply with the provisions of Section 148 of the Code. The Academy covenants, for the benefit of itself, the Authority and the owners from time to time of the Series 2007 Bonds, that it will not cause or permit any proceeds of the Series 2007 Bonds to be invested in a manner contrary to the provisions of Section 148 of the Code, and that it will assume compliance with such provisions on behalf of the Authority (including, without limitation, performing required calculations, the keeping of proper records and the timely payment to the Department of the Treasury of the United States, in the name of the Authority, of all amounts required to be so paid by Section 148 of the Code), and the Academy shall carry out all of the requirements to calculate and make rebate payments to the United States and preserve records thereof.

(o) Except as permitted by Code Section 149(b), the Series 2007 Bonds are not federally guaranteed. For this purpose, a bond is federally guaranteed if (i) the payment of principal or interest is guaranteed (in whole or in part) by the United States or any agency or instrumentality thereof, (ii) 5% or more of the issue is to be (x) used in making loans the principal or interest with respect to which is to be guaranteed (in whole or in part) by the United States (or an agency of instrumentality thereof) or (y) invested directly or indirectly in federally insured deposits or accounts, or (iii) the payment of principal or interest on such bond is otherwise indirectly guaranteed (in whole or in part) by the United States (or an agency or instrumentality thereof).

(p) There are no other obligations of the Academy that were sold or are to be sold within 15 days of the sale of the Series 2007 Bonds that (i) were or are to be sold pursuant to the same plan of financing with the Series 2007 Bonds and (ii) are reasonably expected to be paid from substantially the same source of funds as the Series 2007 Bonds, determined without regard to guaranties from unrelated parties.

(q) The Academy shall not enter into any contracts or other arrangements which do not comply with (k) and (m) above.

(r) The Academy will not pay or enter into a transaction that reduces the arbitrage rebate to be paid to the United States because the transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the yield on the Series 2007 Bonds not been relevant to either party.

(s) The Project has been or will be constructed and equipped in such manner as to conform with all applicable zoning, planning, building, environmental and other regulations of the governmental authorities having jurisdiction of the Project.

(t) To the best of the knowledge of the Academy, no authorizations, consents or approvals of governmental bodies or agencies are required in connection with the execution and delivery by the Academy of the Academy Documents, or in connection with the carrying out by the Academy of its obligations under the Academy Documents, which have not been obtained or, if not obtained on the date of this Agreement, are expected to be obtained in the normal course of business at or prior to the time such authorizations, consents or approvals are required to be obtained.

(u) There are no actions or proceedings pending or, to the knowledge of the Academy, threatened before any court or administrative agency which will, in the reasonable judgment of the Academy, materially adversely affect the ability of the Academy to meet its obligations under the Academy Documents.

(v) No director or officer of the Authority has any interest of any kind in the Academy which would result, as a result of the issuance of the Series 2007 Bonds, in a substantial financial benefit to such persons other than as a member of the general public.

(w) The information furnished by the Academy and used by the Authority in preparing its Non-Arbitrage Certificate pursuant to the Code and the information statement pursuant to Section 149(e) of the Code (Form 8038-G) is true, accurate and complete as of the date of the issuance of the Series 2007 Bonds.

(x) The Academy has complied and intends to comply with its obligations, covenants and representations under the Bond Documents, to the extent such obligations affect the tax-exempt status of the Series 2007 Bonds.

(y) None of the proceeds of the Series 2007 Bonds will be used to finance the purchase, construction, lease, or renovation of property owned, directly or indirectly, by any officer, board member, or employee of the Academy.

(z) The Academy shall promptly pay the Costs of Issuance upon notification by the Authority. The term "Costs of Issuance" shall mean and include Underwriter's discount, underwriting fees, printing charges, letter of credit fees and related charges of a letter of credit, trustee fees, bond counsel fees, academy counsel fees, and other counsel fees and issuance fees of the Authority.

(aa) The Academy will utilize the Project for public school purposes so long as Series 2007 Bonds remain outstanding under the Indenture and will use its best efforts to operate the school in an efficient manner. The Academy will maintain its Charter in good standing. The Academy will not own, operate or utilize other public school facilities which may reduce the utilization or student population of the school facilities being acquired, and improved pursuant to this Agreement while the Series 2007 Bonds remain outstanding.

### ARTICLE III

#### THE SERIES 2007 BONDS AND THE PROCEEDS THEREOF

Section 301. Series 2007 Bonds. The Authority has authorized the issuance and sale of the Series 2007 Bonds in the Principal Amount. The Authority intends to deliver Series 2007 Bonds subject to the terms of the Bond Purchase Agreement. The proceeds of the Series 2007 Bonds shall be deposited in the Project Fund. The obligations of the Authority, and the Academy under this Agreement are expressly conditioned upon delivery of the Series 2007 Bonds and receipt of the proceeds thereof.

Section 302. Purchase of Municipal Obligation. The Authority hereby agrees to purchase the Municipal Obligation in the principal amount of \$3,900,000, by depositing the same as follows: (a) \$ 0.00 in the Academy Funded Reserve Account of the Reserve Fund to be used to fund a portion of the debt service reserve for the Series 2007 Bonds and any Additional Bonds, (b) \$3,600,000.03 in the Project Fund, to be disbursed in accordance with Section 303 to purchase the Site, and (c) \$299,999.97 in the Project Fund, to be disbursed in accordance with Section 303 for payment of other Project Costs.

In addition to the amount of net proceeds of the Series 2007 Bonds deposited in the Academy Funded Reserve Account of the Reserve Fund, the Authority agrees to deposit the Authority Contribution into the Authority Funded Reserve Account of the Reserve Fund upon issuance of the Series 2007 Bonds.

Section 303. Disbursements from the Project Fund. The Authority has directed the Trustee to disburse from the Project Fund established under the Indenture, upon requisition by the Academy, in accordance with Section 601 of this Agreement and the other amounts on deposit therein as provided in this Agreement.

Section 304. Additional Bonds. The Authority may, but shall not be required to, authorize the issuance of the additional bonds upon the terms and conditions provided in the Indenture. Failure by the Authority to issue additional bonds shall not release the Academy from any provisions of this Agreement, regardless of the reason for such failure.

Section 305. Investment of Funds and Accounts. Any moneys held as a part of any Fund or Account shall be invested, reinvested or applied by the Trustee in accordance with the provisions of the Indenture. Any moneys held in the Project Fund, Bond Fund or Reserve Fund shall, pending disbursement and upon written request of the Academy or oral or facsimile request of the Academy later confirmed in writing, be invested only in Eligible Investments in accordance with the provisions of Section 4.06 of the Indenture, all at such maturities, rates of interest and other specifications as the Academy may indicate in its request to the Trustee. The investments shall mature not later than the respective dates estimated by the Academy when the moneys in such Funds shall be needed for the purposes provided in this Agreement and the Indenture, but should the cash balance in a Fund be insufficient for such purpose, the Trustee is authorized to sell the necessary portion of such investments to meet that purpose. Recognizing that such investments shall be made at the written direction of the Academy, the Authority agrees to cooperate with the Academy, and the Academy covenants that it will restrict the use of the proceeds of the Series 2007 Bonds (and any other funds or moneys which may be deemed to be proceeds of the Series 2007 Bonds pursuant to Section 148(a) of the Code), in such manner and to such extent, if any, as may be necessary, after taking into account reasonable expectations at the time the Series 2007 Bonds are issued, so that the Series 2007 Bonds will not constitute "arbitrage bonds" under Section 148(a) of the Code.

The Academy shall not invest, reinvest or accumulate any moneys deemed to be proceeds of the Series 2007 Bonds pursuant to the Code in such a manner as to cause the Series 2007 Bonds to be "arbitrage bonds" within the meaning of the Code.

Section 306. Rebate Payments to United States. The Academy for itself and for the Authority agrees that it shall calculate and make all necessary payments of investment earnings required to be rebated to the United States pursuant to the terms of the Indenture and the Non-Arbitrage Certificate. The Academy hereby further agrees that it shall comply with the procedures outlined in the Academy's Non-Arbitrage and Tax Compliance Certificate and shall furnish to the Trustee and the Authority within fifteen (15) days following each Computation Date (as defined in the Academy's Non-Arbitrage and Tax Compliance Certificate) the computations required thereby. The Trustee has no duty to confirm the accuracy of the

computations made by the Academy and may assume that the computations are correct. The Academy shall provide to the Trustee and the Authority evidence of each payment of rebate, if any, within 30 days of each such payment.

#### ARTICLE IV

##### BOND PAYMENTS

Section 401. Obligations Related to Municipal Obligation. The Academy hereby agrees that it will not sell, assign title to, lease, or obtain further financing with respect to the Project except as permitted hereunder and with the written permission of the Trustee while Bond Payments or Additional Payments remain outstanding under the Municipal Obligation and this Agreement. The Academy agrees that the Authority may pledge the Municipal Obligation and this Agreement as security for its obligations to pay Series 2007 Bonds and any Additional Bonds issued under the Indenture.

If on a Bond Payment Date the Academy's payment of its obligations hereunder have been deficient or if for any other reason the balance in the Bond Fund is insufficient to pay principal and interest on the Series 2007 Bonds then due, whether by maturity, redemption, or acceleration, the Academy shall forthwith pay the amount of any such deficiency to the Trustee.

If any withdrawal is made from the Reserve Fund to cure any deficiency in the Bond Fund, the Academy shall pay to the Trustee for deposit into the Reserve Fund on each Payment Date commencing with the first Payment Date following such withdrawal, an amount sufficient to restore the Reserve Fund to the Reserve Fund Requirement in eleven consecutive equal installments or such other number of equal installments as the Trustee shall determine necessary to restore the Reserve Fund to the Reserve Fund Requirement by the next Bond Payment Date. If on any Bond Payment Date the value of the Reserve Fund is less than the Reserve Fund Requirement, the Academy shall pay to the Trustee for deposit, *pari passu*, on a pro rata basis, into the Academy Funded Reserve Account of the Reserve Fund and the Authority Funded Reserve Account of the Reserve Fund on each Payment Date, commencing on the first Payment Date following such Bond Payment Date, an amount sufficient to restore the Reserve Fund to the Reserve Fund Requirement in full (such payments being "Reserve Fund Payments"). Notwithstanding the foregoing, if there are sufficient funds in the State Aid Intercept Account of the Bond Fund to replenish any deficiency in the Reserve Fund (after taking into consideration the priority of payments set forth in Section 4.01 of the Indenture), then the obligation to make Reserve Fund Payments in an amount sufficient to restore the Reserve Fund to the Reserve Fund Requirement shall be accelerated and the Trustee shall transfer funds from the State Aid Intercept Account, *pari passu*, on a pro rata basis to the Academy Funded Reserve Account of the Reserve Fund and the Authority Funded Reserve Account of the Reserve Fund to satisfy all outstanding Reserve Fund Payment requirements in accordance with Section 4.01 of the Indenture.

Section 402. Obligations Unconditional. The Academy's obligations to the Authority under the Municipal Obligation and this Agreement are an absolute and unconditional general obligation of the Academy and shall remain in full force and effect until the amounts owed

hereunder shall have been paid by the Academy to the Authority under the Municipal Obligation and this Agreement, and such obligations shall not be affected, modified or impaired upon the happening from time to time of any event, including without limitation any of the following:

(a) Any failure of title with respect to the Academy's interest in the Project or the invalidity, unenforceability or termination of this Agreement;

(b) The modification or amendment (whether material or otherwise) of any obligation, covenant or agreement set forth in this Agreement;

(c) The voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all of the assets, marshalling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition with creditors or readjustment or other similar proceedings affecting the Academy, or any of its assets or any allocation or contest of the validity of this Agreement, or the disaffirmance of this Agreement in any such proceedings;

(d) To the extent permitted by law, any event or action which would, in the absence of this clause, result in release or discharge by operation of law of the Academy, from the performance or observation of any obligation, covenant or agreement contained in this Agreement;

(e) The default or failure of the Academy fully to perform any of its obligations set forth in this Agreement or any other agreement; or

(f) Any casualty or destruction of the Project.

The Authority shall have no liability for the performance of any obligations to the Academy except as expressly set forth in this Agreement.

Section 403. Payment Provisions. In addition to Bond Payment obligations under the Municipal Obligation, which shall be calculated and paid as described below, the Academy agrees to pay to the Authority Additional Payments hereunder, which are (a) initially scheduled to be payable as set forth in Exhibit A hereto on the Payment Dates set forth in Section 405 below, and may be adjusted as set forth in Section 405 below, and (b) any amounts which may be required to be paid hereunder or under the Indenture including but not limited to replenishment of the Reserve Fund.

In the event of a default in the payment of the Bond Payments or Additional Payments when due, the amount of such default shall bear interest (the "additional interest") at a rate equal to the rate of interest which is two percent above the Authority's cost of providing funds (as determined by the Authority) to make payments on the Series 2007 Bonds of the Authority but in no event in excess of the maximum rate of interest permitted by law. The additional interest shall continue to accrue until the Authority has been fully reimbursed for all costs incurred by the Authority (as determined by the Authority) as a consequence of the Academy's default. Such additional interest shall be payable on the Payment Date following demand of the Authority.

It is expressly agreed between the Academy and the Authority by acceptance of the assignment made by this Agreement, that the Academy shall make all payments due hereunder at the designated trust office of the Trustee. The Academy further agrees that it will deposit with the Trustee all payments due hereunder in immediately available funds. The Academy covenants and agrees that its obligations to make payments hereunder are obligations incurred with the Authority under the State School Aid Act, 1979 PA 94, as amended ("School Aid Act") and may be enforced by the Authority and the Trustee on behalf of the Authority as set forth in the State Aid Agreement.

Section 404. Payment General Obligation. The obligation of the Academy to pay Bond Payments, Additional Payments and all other payments hereunder is a general obligation of the Academy. The Academy shall and hereby agrees to include in its budget (either of the general fund or of a capital fund) and pay each year, until this Agreement is paid in full, such sum or sums as may be necessary each year to make payments of the Bond Payments, Additional Payments and all other payments hereunder and additional interest payments, when due. The Bond Payment obligations of the Academy hereunder and under the Municipal Obligation shall be deemed to be obligations of the Academy incurred in accordance with Section 504a(g) and Section 1351a of the School Code.

Section 405. State School Aid Pledge and Payment. The Academy pledges to pay its Bond Payments and Additional Payments and all other amounts required by the Municipal Obligation and hereby or hereunder from its State School Aid to be allocated to it and payable to its Authorizing Body (the "Pledged State Aid"). Unless otherwise agreed to in writing by the Authority, an amount of each installment of State School Aid (such moneys to be used to pay the Bond Payments and Additional Payments when due) as set forth on Exhibit A, which amount is approximately equal to 1/11 of the annual principal payments scheduled on the Series 2007 Bonds (the Scheduled Principal Component and the Set-Aside Component relating to principal) plus 1/11 (adjusted in the initial fiscal year to reflect interest accruing from the Closing Date) of the annual interest obligation (the Scheduled Interest Component and the Set-Aside Component relating to interest) plus 1/11 of the annual fees (the Scheduled Fee Payment Component) shall, pursuant to the agreement of the Authorizing Body, be transmitted directly by the State Treasurer to the Trustee commencing on or after January 20, 2007 and thereafter on the 20th of each January, February, March, April, May, June, July, August, October, November and December (each a "Payment Date"); provided however that if (i) applicable law changes to provide for a schedule of school aid payments materially different from that now in effect, or (ii) the Academy with the prior written consent of the Authority and all of the holders of the Series 2007 Bonds and receipt of a Favorable Opinion of Bond Counsel as to the adjusted schedule of optional redemption of the Series 2007 Bonds, may agree to a different schedule of optional redemption of the Series 2007 Bonds, the Authority, by written notice to the Trustee, the State Treasurer, the Academy and the Authorizing Body may designate different payment dates or amounts to provide for timely receipt of Bond Payments and Additional Payments consistent with such changes which shall thereupon be and become the "Payment Dates" hereunder. If the Payment Date falls on a Saturday, Sunday, or legal holiday, the Bond Payment shall be due on the next succeeding business day. The Bond Payments and Additional Payments, if any, to the Authority shall be made first from the State School Aid allocated to the Academy during the month of the

payment. If, for any reason, the State School Aid allocated to the Academy during the month of the payment is insufficient to pay the Bond Payment and Additional Payment, if any, then in that event the Academy pledges to use any and all other available funds to meet the Bond Payment obligation and Additional Payment obligation, if any. If on any due date for any Bond Payment or Additional Payment the funds with the Trustee are insufficient to pay the Bond Payment and Additional Payment, if any, then the Academy, pursuant to Section 17a(3) of the School Aid Act to the extent necessary to meet the payment obligation assigns to the Authority and authorizes and directs the State Treasurer to intercept and/or advance not to exceed 97% of any payment which is dedicated for distribution or for which the appropriation authorizing payment has been made under the School Aid Act; and in such event pursuant to Section 17a(3) of the School Aid Act, the Authority is authorized, pursuant to the agreement of the Authorizing Body, to intercept and/or seek an advancement of 97% of the Pledged State Aid to be allocated or distributed to the Authorizing Body with respect to the Academy. The Trustee, on behalf of the Authority, shall immediately notify (or cause notice to be given to) the Academy and the Authorizing Body that it will immediately commence to intercept and/or receive an advancement of the Pledged State Aid and beginning immediately the Authority shall intercept 97% of the Pledged State Aid to be distributed to the Authorizing Body with respect to the Academy. Notwithstanding the foregoing, however, the amount to be applied by the Trustee to Bond Payments hereunder in any fiscal year of the State shall not exceed 20% of the amount of School Aid payable to the Academy by the State in such fiscal year.

The intercepted and/or advanced amount shall be applied on the following priority basis: (i) the amount required to pay the Bond Payment and Additional Payment, if any, when due shall be held by the Trustee for such purpose, (ii) any other amounts owing to the Authority under this Agreement, (iii) an amount equal to the Scheduled Fee Payment Component shall be retained by the Trustee as provided under the Indenture and (iv) to the extent in excess of the amounts required under (i) through (iii) above, any amounts remaining to be immediately distributed to or at the direction of the Academy. The process set forth above shall continue until sufficient funds are deposited with the Trustee to pay all Bond Payments and Additional Payments. Section 17a(3) of the School Aid Act does not require the State to make an appropriation to any authorizing body, public school academy, other school district or intermediate school district and such appropriation shall not be construed as creating an indebtedness of the State.

The pledge of State School Aid pursuant to this section is subject to the reservation by the Academy of the right to make additional pledges of State School Aid to secure other obligations as provided in Section 707 hereof and provided that the amount of State School Aid received by the Academy in the fiscal year of the State preceding the incurrence of such additional obligations equals or exceeds the amount required in each year to pay the sum of an amount equal to the Bond Payments and Additional Payments due and the principal and interest and other payments due under such additional obligations for which State School Aid has been pledged.

Section 406. Mandatory and Optional Prepayments. Subject to the Authority's right to optionally redeem Series 2007 Bonds, the Academy may prepay its obligations under the Municipal Obligation and hereunder in whole or in part in Authorized Denominations. The Academy may direct the redemption of the corresponding amount of Series 2007 Bonds then



outstanding on such dates and pursuant to the provisions and limitations, and upon payment of any required premium, set forth in Section 2.11(a) of the Indenture.

The Academy shall prepay its obligations hereunder at such times in order to enable the Trustee to redeem all or a portion of the Series 2007 Bonds as required in Section 2.11 of the Indenture.

If the Academy repays or prepays Bond Payments and other amounts owing to the Trustee under this Agreement and the Indenture in such a manner so as to permit the Security to be released from the lien of the Indenture in accordance with Article VI of the Indenture, then the loan shall be deemed fully repaid, and this Agreement shall be canceled on the date on which the Security is so released. To confirm such cancellation, the Academy may require the Trustee to execute any further reasonable evidence of cancellation on the date the Security is so released.

In the event of any optional prepayment on or before the date set for redemption of the Series 2007 Bonds to be redeemed in connection therewith, the Academy shall deposit with the Trustee, an amount sufficient to pay the principal of, premium, if any, and interest on the Series 2007 Bonds and the Academy shall deposit with the Trustee sufficient moneys to pay all fees, costs, and expenses of the Authority and the Trustee specified in Section 407, Section 502, Section 503 and Section 903 hereof accruing through the date set for redemption of the Series 2007 Bonds.

Section 407. Fee Payments. To the extent they are not paid out of the Project Fund to the Authority, the Academy shall pay to the Authority within ten (10) days of demand therefor: (a) all Costs of Issuance and other out-of-pocket costs and expenses of the Authority incidental to the performance of its obligations under this Agreement, the Indenture and the Bond Purchase Agreement and (b) the out-of-pocket expenses of the Authority incurred by the Authority in enforcing the provisions of this Agreement or the Indenture.

In addition to the aforesaid payments to the Authority the Academy shall pay to the Authority (a) a one time issuance fee of one twentieth of one percent (1/20 of 1%) of the principal amount of the Series 2007 Bonds prior to or contemporaneously with execution of this Agreement, such fee will be reimbursed by the Authority in accordance with its fee schedule provided that the Authority has sufficient funds for such purpose at the time of execution of this Agreement and (b) on or before March 1 in each year, an amount sufficient to assure payment in full of the Academy's allocable share (as determined by the Authority) of the annual general operating expenses of the Authority, but such allocable share shall not exceed one twentieth of one percent (1/20 of 1%) of the average principal amount of the Series 2007 Bonds outstanding under the Indenture during the preceding calendar year.

Section 408. Security Interest in the Project Fund. To better secure its obligations hereunder, including the obligation to pay Bond Payments and Additional Payments, as and when they are due, the Academy hereby grants a security interest in the moneys at any time held in the Project Fund, and any proceeds thereof, to the Authority to be perfected by possession of such moneys in the Project Fund by the Trustee and held therein for the benefit of the Bondholders as provided in the Indenture.

Section 409. Assignment by Authority. The Academy hereby consents to any assignments now or hereafter made by the Authority of the Authority's rights under this Agreement (except the Unassigned Rights) and acknowledge that no further action or consent by the Academy is necessary to effectuate such an assignment.

Section 410. Authorized Academy Representative. The Academy hereby authorizes and directs the Authorized Academy Representative to act in the capacity of Authorized Academy Representative under the Indenture and hereunder.

Section 411. The Municipal Obligation and Obligations of the Academy Unconditional. The obligation of the Academy to pay the Bond Payments and Additional Payments and all other amounts required by the Municipal Obligation and this Agreement to be paid by the Academy shall be an absolute and unconditional general obligation of the Academy and shall not be subject to diminution by set-off, recoupment, counterclaim, abatement or otherwise. Until the Series 2007 Bonds have been fully paid (or provision made therefor) in accordance with the Indenture, the Academy (i) shall not suspend or discontinue any Bond Payments or Additional Payments, (ii) shall perform and observe all of its other obligations contained in the Municipal Obligation and this Agreement and (iii) shall not terminate this Agreement for any cause, including, without limiting the generality of the foregoing, defect in title to the Project, failure to complete the Project, any acts or circumstances that may constitute failure of consideration, destruction of, damage to or condemnation of the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of Michigan or any political subdivision of either, or any failure of the Authority to perform and observe any of its obligations arising out of or connected with this Agreement. It is the intent and expectation of the parties hereto that the Bond Payments will be sufficient for the payment in full of the Series 2007 Bonds, including (i) the total interest to become due and payable on the Series 2007 Bonds to the dates of payment thereof, (ii) the total principal amount of the Series 2007 Bonds, (iii) the redemption premiums, if any, that shall be payable on the redemption of the Series 2007 Bonds prior to their stated payments dates, and (iv) all additional interest, additional principal and any other amounts payable to the Bondholder as and when required by the Series 2007 Bonds or this Agreement. In the event, however, of any deficiency in the payment of such amounts regardless of the reason for such deficiency, the Academy agrees that upon notice of the deficiency from the Bondholder or the Authority it shall then immediately pay the amount of the deficiency to the Bondholder on behalf of the Authority. The obligations of the Academy under this paragraph shall survive the termination of this Agreement.

## ARTICLE V

### OTHER OBLIGATIONS OF THE ACADEMY

Section 501. Costs of Issuance. The Academy covenants and agrees to promptly pay the Costs of Issuance upon notification by the Authority.

Section 502. Indemnification of the Authority. (a) The Authority and its members, officers, agents and employees (the "Indemnified Persons") shall not be liable to the Academy for any reason. The Academy shall, to the extent permitted by law, indemnify and hold the

Authority and the Indemnified Persons harmless from any loss, expense (including reasonable counsel fees) or liability of any nature due to any and all suits, actions, legal or administrative proceedings, or claims arising or resulting from, or in any way connected with (i) the financing, construction, operation, use or maintenance of the Project, (ii) any act, failure to act or misrepresentation by any person, firm, corporation or governmental agency, including the Authority, in connection with the issuance, sale, delivery or remarketing of any of the Series 2007 Bonds, (iii) any act or failure to act by the Authority in connection with this Agreement or any other document involving the Authority in this matter, and (iv) the selection and appointment of firms or individuals providing services related to the Series 2007 Bond transactions. If any suit, action or proceeding is brought against the Authority or any Indemnified Person, that suit, action or proceeding shall be defended by counsel to the Authority or the Academy, as the Authority shall determine. If the defense is by counsel to the Authority, which is the Attorney General of Michigan or may, in some instances, be private, retained counsel, the Academy shall indemnify the Authority and Indemnified Persons for the reasonable costs of that defense, including reasonable counsel fees. If the Authority determines that the Academy shall defend the Authority or Indemnified Persons, the Academy, as determined by the Authority, shall immediately assume that defense at its own cost. The Academy shall not be liable for any settlement of any proceedings made without its consent (which consent shall not be unreasonably withheld).

(b) The Academy shall not be required to indemnify the Authority or any Indemnified Person under subsection (a), if a court with competent jurisdiction finds that the liability in question was caused by the willful misconduct or sole gross negligence of the Authority or the involved Indemnified Person, unless the court determines that, despite the adjudication of liability but in view of all circumstances of the case, the Authority or the Indemnified Person(s) is (are) fairly and reasonably entitled to indemnity for the expenses which the court considers proper.

(c) The Academy shall, to the extent permitted by law, also indemnify the Authority for all reasonable costs and expenses, including reasonable counsel fees, incurred in (i) enforcing any obligation of the Academy under this Agreement or any related agreement, (ii) taking any action requested by the Academy, (iii) taking any action required by this Agreement or any related agreement, or (iv) taking any action considered necessary by the Authority which is authorized by this Agreement or any related agreement.

(d) The obligations of the Academy under this section shall survive any assignment or termination of this Agreement.

Section 503. Indemnification of the Trustee. The Academy shall, to the extent permitted by law, indemnify and hold the Trustee harmless against any loss, liability or expense incurred without bad faith, gross negligence or willful misconduct on the part of the Trustee, arising out of or in connection with the acceptance or administration of the Indenture, including the costs and expense of defense against any such claim of liability. In the event of the occurrence of any claim indemnified against under this paragraph, the Trustee shall promptly notify the Academy of the existence of the claim and shall give the Academy such assistance and cooperation in the defense thereof as may be reasonably requested. The Academy shall defend any such claim

through legal counsel of its choice, and the Academy shall have exclusive authority to defend, settle or otherwise dispose of such claim as it deems advisable in the exercise of its sole discretion. The obligations of the Academy under this Section shall survive any assignment or termination of this Agreement and the resignation or removal of the Trustee.

Section 504. Taxes and Other Costs. The Academy shall promptly pay, as the same becomes due, all lawful taxes and governmental charges of any kind whatsoever, including without limitation income, profits, receipts, business, property and excise taxes, with respect to any estate, interest, documentation or transfer in or of the Project, this Agreement or any payments with respect to the foregoing, the costs of all building and other permits to be procured, and all utility and other charges and costs incurred in the operation, maintenance, use, occupancy and upkeep of the Project.

Section 505. Authority and Trustee Right to Perform Academy Obligations. In the event the Academy shall fail to perform any of its obligations under this Agreement, the Authority and the Trustee may, but shall be under no obligation to, perform such obligation and pay all costs related thereto, and all such costs so advanced by the Authority or the Trustee shall become an additional obligation of the Academy to the Authority or the Trustee, secured under the Indenture, payable on demand with interest thereon at 2% per annum in excess of the average rate per annum borne by the Series 2007 Bonds from the date of advancement until payment, but in no event in excess of the maximum rate permitted by law.

Section 506. Audit Obligation. The Academy shall have an independent audit, using generally accepted accounting principles generally used for public school accounting in the State of Michigan, of its bonding activities under these sections conducted within 120 days after completion of all projects financed by the proceeds of this Agreement and shall submit the audit report to the Michigan Department of Treasury.

## ARTICLE VI

### ACQUISITION OF PROJECT

Section 601. Project Fund Disbursements. Subject to the conditions set forth below, unless an Event of Default has occurred and is continuing, the Trustee shall disburse out of the Project Fund the lesser of (a) the Project Costs paid or incurred or (b) the Series 2007 Bond proceeds deposited in the Project Fund and investment income in the Project Fund. Such disbursements shall be used to pay the Project Costs so long as there are moneys in the Project Fund, upon presentation of a Requisition Certificate executed by the Academy in the form shown on Exhibit C attached hereto or in a form approved by the Authorized Officer of the Trustee and the Authority.

Prior to the first disbursement, in addition to all other instruments and documents required to be delivered pursuant to the Indenture, the Bond Purchase Agreement and this Agreement, the Academy shall have delivered to the Trustee (i) a marked-up loan policy of title insurance commitment from a title insurance company satisfactory to the Trustee, naming the Trustee as lender, without standard exceptions, in the amount specified in Section 607 of this

Agreement, insuring that the Mortgage is a first lien in all respects on the unencumbered marketable fee simple absolute title to the Site, subject only to Permitted Encumbrances, together with copies of all necessary sworn statements and lien waivers required by the title company, if any, and (ii) evidence of payment of fees relating thereto.

Each Requisition Certificate shall be accompanied by copies of invoices or other appropriate documentation satisfactory to the Trustee, supporting the payments or reimbursements requested and by a brief description of the portion of the Project financed, acquired, constructed or improved; provided that the Trustee shall have no duty or obligation to review such invoices and may conclusively rely on such requisitions.

Section 602. Obligation of the Academy to Complete the Project and to Pay Costs in Event Project Fund Insufficient. The Academy shall proceed diligently to complete the Project substantially in accordance with the descriptions which have been provided to the Authority. If requested, the Academy shall make available to the Authority and the Trustee such information concerning the Project as any of them may reasonably request. The Project shall not be materially altered in scope, character, value or operation without the prior written consent of the Trustee and the holders of 100% of the Series 2007 Bonds and provided that the expenditure of moneys for the Project as modified is permitted by the Enabling Legislation and will not impair the exclusion of interest on the Series 2007 Bonds from gross income for federal income tax purposes.

In the event the money in the Project Fund available for payment of the costs of the Project shall not be sufficient to make such payment in full, the Academy agrees to pay directly, or to deposit moneys in the Project Fund for the payment of, such costs of completing the Project as may be in excess of the moneys available therefor in the Project Fund. The Authority does not make any warranty or representation, either expressed or implied, that the moneys which will be deposited into the Project Fund, and which under the provisions of this Agreement will be available for payment of the costs of the Project, will be sufficient to pay all of the costs which will be incurred in connection therewith. The Academy agrees that if, after exhaustion of the moneys in the Project Fund, the Academy shall pay, or deposit moneys in the Project Fund for payment of, any portion of the costs of the Project pursuant to the provisions of this Section 602, it shall not be entitled to any reimbursement therefor from the Authority, the Trustee or from the owners of any of the Series 2007 Bonds, nor shall it be entitled to any diminution of the amounts payable hereunder.

Section 603. Recovery Under Breach of Warranty. All warranties shall vest in the Academy and in the event of default or breach of warranty by any contractor in connection with the Project or with respect to any materials, workmanship or performance or other guaranty, the Academy may, after notification of the Authority, proceed, either separately or in conjunction with others, to pursue such remedies against the party in default and against each surety as it may deem advisable. Any amounts recovered in connection with the foregoing after Project Costs have been paid or duly provided for shall be paid to the Academy.

Section 604. Completion Certificate. The Completion Date of the acquisition, equipping and installation of the Project and the payment of the entire Project Costs shall be evidenced to the Trustee and the Authority by the Completion Certificate.

Section 605. Use of Surplus Funds. As soon as practicable and in any event within 60 days from the date of delivery of the Completion Certificate, the Academy shall direct the Trustee to transfer any balance remaining in the Project Fund (i.e. "Surplus Bond Proceeds") to the Bond Fund, for use in accordance with the Indenture. Notwithstanding the foregoing, proceeds of the Series 2007 Bonds may be retained in the Project Fund longer than three (3) years after the Issue Date provided the Academy delivers a Favorable Opinion of Bond Counsel to the Trustee with respect to the retention and investment of such proceeds of the Series 2007 Bonds in the Project Fund.

Section 606. Application of Insurance and Condemnation. In the event (i) the Project is damaged or destroyed, or (ii) failure of title to all or part of the Project occurs or title to or temporary use of the Project is taken by condemnation or by the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority, the Academy shall promptly give written notice thereof to the Authority and the Trustee. As soon as practicable, but not later than 60 days after such damage or condemnation, the Academy shall elect in writing whether to restore all or part of the Project or to prepay this Agreement. The Academy may only restore all or part of the Project if it demonstrates to the Trustee that (i) it has sufficient money available to it (including insurance proceeds) to undertake such restoration, and (ii) such restoration will not cause interest on the Series 2007 Bonds which would otherwise be excludable from gross income for federal income tax purposes to be included in gross income for federal income tax purposes. If the Academy chooses to restore all or part of the Project, the Trustee shall deposit the proceeds of such condemnation or insurance in the Project Fund, which shall be reactivated and drawn down in the same manner as provided for the Project Fund in Section 601. If the Academy shall elect to restore the Project, it shall proceed to do so with reasonable dispatch. If the Project shall have been so damaged or destroyed, or if failure of title or condemnation or taking of such part thereof shall have been taken so that the Project may not be reasonably restored within a period of 12 consecutive months (or such longer period of time as is acceptable to the Trustee) to its condition immediately preceding such damage or destruction or failure of title, or if the Academy is thereby prevented from carrying on its normal operations for a period of 12 consecutive months (or such longer period of time as is acceptable to the Trustee), or if the cost of restoring the Project is reasonably deemed by the Academy to be uneconomic and the Academy abandons the Project, then all proceeds of such insurance or condemnation shall be transferred to the Bond Fund and used for payment or redemption of the Series 2007 Bonds.

Section 607. Mortgage and Title Insurance. At or prior to the Closing Date, the Academy shall cause to be executed and delivered and cause to be recorded the Mortgage (as defined in the Indenture) securing performance by the Academy of its obligations under this Agreement and the payment of the Bond Payments and Additional payments by the Academy. The Mortgage shall grant to the Trustee a first mortgage lien on all real property comprising the Project.

At or prior to the Closing Date, the Academy shall cause to be delivered to the Trustee a policy of mortgage title insurance on the Site, insuring the first priority lien of the Mortgage, subject only to Permitted Encumbrances. The title policy shall provide for title insurance in an amount equal to the full principal amount of the Series 2007 Bonds.

## ARTICLE VII

### FURTHER OBLIGATIONS OF THE ACADEMY

Section 701. Compliance With Laws. The Academy agrees that it shall, throughout the term of this Agreement and at no expense to the Authority, promptly comply or cause compliance with all legal requirements of duly constituted public authorities which may be applicable to the Project or to the repair and alteration thereof, or to the use or manner of use of the Project.

Section 702. Maintenance of Legal Existence Qualification. During the term of this Agreement, and except as otherwise provided by Section 706 hereof, the Academy shall maintain its existence and shall not dissolve or otherwise dispose of all or substantially all of its assets or consolidate with or merge into another entity or permit one or more entities to consolidate with or merge into it without the prior written consent of the Authority.

Section 703. Reports and Access to Projects and Records. The Academy covenants that promptly, but not later than one hundred twenty (120) days after the close of each fiscal year, it will file with the Authority and the Trustee (and upon written request with the original Underwriter for the Series 2007 Bonds), in such quantity as the Authority may require, its audited financial statement for such fiscal year reflecting in reasonable detail the financial position and results of operation of the Academy, together with the audit report by a certified public accountant or firm of independent certified public accountants of suitable experience and responsibility. The Trustee shall have no duty to review or analyze such financial statements and shall hold such financial statements solely as a repository for the benefit of the Bondholders. The Trustee shall not be deemed to have notice of any information contained therein or deemed to have notice of an event of default which may be disclosed therein in any manner.

The Academy further covenants and agrees that it will promptly file with the Authority a copy of all documentation, materials and notices filed by or on behalf of the Academy pursuant to or in connection with any continuing disclosure undertaking relating to the Series 2007 Bonds or other debt incurred by or for the benefit of the Academy.

The Academy further covenants and agrees that it has, with the permission of any applicable third parties, placed on file with the Trustee a current property survey of the Project, together with an Updated Phase I Environmental Site Assessment performed by Clayton Group Services of Novi, Michigan.

Subject to reasonable security and safety regulations, the Authority and the Trustee and the respective duly authorized agents of each shall have the right at all reasonable times to enter the Project and to examine and inspect the same.

Section 704. Covenant as to Non-Impairment of Tax-Exempt Status. Notwithstanding any other provision of any rights of the Academy under this Agreement, the Academy hereby covenants that, to the extent permitted by law, it shall take all actions within its control and that it shall not fail to take any action as may be necessary to maintain the exclusion of the interest on the Series 2007 Bonds from gross income for federal income tax purposes, on behalf of itself and the Authority, including but not limited to, actions relating to the rebate of arbitrage earnings and the expenditure and investment of Series 2007 Bond proceeds and moneys deemed to be Series 2007 Bond proceeds, all as more fully set forth in the Non-Arbitrage Certificate.

Section 705. Covenant Regarding Bond Purchases. The Academy covenants that neither it nor any related person will purchase Series 2007 Bonds in an amount related to the amount of proceeds of such Series 2007 Bonds.

Section 706. Academy to Maintain Existence. The Academy covenants and agrees that for so long as any Series 2007 Bond remains Outstanding under the Indenture, it shall maintain its existence as a Public School Academy under Michigan law and shall continue to operate its facilities located at the Site as a public school which will produce sufficient available revenues to pay the Bond Payments and all other amounts due and owing under this Agreement. Notwithstanding the foregoing, the Academy shall have the right to cease operations at the Site upon (a) prepayment in full of the Bond Payments, Additional Payments and any prepayment premium required by the Authority as determined in the sole discretion of the Authority and (b) filing an opinion of Bond Counsel that such prepayment and release will not adversely affect the exclusion of interest on the Series 2007 Bonds from gross income for federal income tax purposes.

Section 707. Other Obligations. The Academy covenants and agrees that, without the prior written consent of the Trustee, at the direction of the holders of 51% of the outstanding Series 2007 Bonds, it will not incur indebtedness for borrowed money, guarantee the obligations of others or incur pecuniary obligations, except the following:

- (a) obligations incurred in the ordinary course of business;
- (b) state aid notes (including state aid note lines of credit) issued pursuant to Act No. 451, Public Acts of Michigan, 1976, as amended; and
- (c) other indebtedness incurred or guaranteed by the Academy in accordance with applicable law related to capital acquisitions provided that the aggregate maximum annual debt service on such indebtedness, in any fiscal year, together with the applicable Scheduled Installment Payment hereunder for such year, shall not exceed 20% of the amount of State School Aid payable to the Academy by the State in such fiscal year. *For purposes of computing future projections of State School Aid, the amount of State School Aid expected to be paid to the Academy for the Academy's current fiscal year computed using the number of students certified as of the September count date of the current fiscal year shall be used.*
- (d) Notwithstanding the foregoing, the Academy covenants and agrees that the amount of State School Aid to be received by the Academy shall be at least the total of the

Bond Payments, Additional Payments and all payments on such other Obligations to which State School Aid has been pledged due in such fiscal year.

Section 708. Transfer, Assignment and Leasing. The Academy may not transfer or sell the Project without the prior written consent of the Authority and 100% of the Beneficial Owners of the Series 2007 Bonds and any Additional Bonds. The Academy may lease any portion of the Project with the prior written consent of the Trustee and the holders of 100% of the Series 2007 Bonds provided that the Academy delivers to the Authority and the Trustee in connection with any such leasing a Favorable Opinion of Bond Counsel with respect to such lease. No leasing shall relieve the Academy from primary liability for any of its obligations hereunder, and in the event of any such leasing the Academy shall continue to remain primarily liable for the payment of Bond Payments and for performance and observance of the other agreements herein on its part to be performed and observed.

(a) Approval of the sale or conveyance of the Project by the Authority shall be in its sole discretion;

(b) The Academy shall, on or prior to the effective date of such sale or assignment, furnish or cause to be furnished to the Authority and the Trustee (i) an executed assumption agreement whereby the new owner agrees in writing to assume the obligations of the Academy under this Agreement and the Bond Documents to which the Academy is a party, together with the Trustee's written consent thereto or the written consent of the holders of 100% of the Series 2007 Bonds, and (ii) a Favorable Opinion of Bond Counsel with respect to such assignment or sale agreement; and

(c) The new owner shall submit evidence to the Trustee that it is qualified to do business as a public school academy in the State of Michigan.

Section 709. Substitution and Removal of Personal Property. Any property financed or refinanced with Series 2007 Bond proceeds may not be removed from any Project site unless (i) other property of equivalent or greater value and utility is substituted therefor within six months of such disposition or (ii) the proceeds of the sale of such property are used in accordance with the following sentence or (iii) the Academy receives an opinion of Bond Counsel that noncompliance with (i) or (ii) above will not adversely affect the exclusion of interest on the Series 2007 Bonds from gross income for federal income tax purposes. Any proceeds received upon the sale of any of the property financed or refinanced with the proceeds of the Series 2007 Bonds (i) will be invested at a yield not in excess of the yield on the Series 2007 Bonds and used for the purpose of redeeming the Series 2007 Bonds at the first subsequent call date, or (ii) will be used for the purpose of acquiring property performing the same function at such Project site as the disposed property within six months of the date of receipt of such proceeds. Notwithstanding the foregoing, if any property financed or refinanced with the proceeds of the Series 2007 Bonds wears out or becomes obsolete so that it is no longer functional to the Academy and the Academy deems it appropriate to dispose of such property and, further, if the Academy or any related party thereto receives no economic benefit from the disposal thereof, then the Academy may dispose of such property other than as provided above.

Section 710. Maintenance, Repair and Modification. The Academy shall cause the Project to be used for the purposes described in this Agreement throughout the term of this Agreement. The Academy does not know of any reason why the Project will not be used and occupied by it in the absence of supervening circumstances not now anticipated by it or beyond its control. The failure of the Academy to use the Project for its intended purposes shall not in any way abate or reduce the obligation of the Academy to pay the Bond Payments and the Additional Payments under the provisions of this Agreement.

The Academy agrees that it will keep the Project in good repair and good operating condition, ordinary wear and tear excepted, at its own cost.

The Academy may remodel the Project or make additions, modifications and improvements to the Project from time to time as the Academy, in its discretion, may deem to be desirable, the cost of which shall be paid by the Academy; provided, however, that such additions, modifications and improvements (i) do not materially and adversely alter the scope, character, value or operation of the Project without the prior written consent of the Trustee or 100% of the holders of the Series 2007 Bonds, (ii) do not impair the exclusion of interest on the Series 2007 Bonds from gross income for federal income tax purposes and (iii) do not contravene the provisions of the Enabling Legislation.

Section 711. Liability Insurance. The Academy shall procure and maintain or cause to be procured and maintained continuously in effect with respect to the Project comprehensive general accident and public liability insurance covering any liability arising out of or in any way relating to the maintenance, use or operation of the Project or any part thereof, under which the Academy and the Trustee are named as insureds, in an amount not less than \$1,000,000 combined single limit for bodily injuries and property damage and will cause all contractors to maintain similar insurance against all similar liabilities on their part. The Net Proceeds of all such insurance shall be applied as set forth in Section 606 hereof.

Section 712. Negligence of the Academy. As between the Academy and the Authority, the Academy agrees to defend the Authority against all risks and liabilities, whether or not covered by insurance, for loss or damage to the Project and for injury to or death of any person or damage to any property, whether such injury or death be with respect to agents or employees of the Academy or of third parties, and whether such property damage be to property of the Academy or the property of others, which is proximately caused by the negligent conduct of the Academy, its officers, employees and agents. The Academy hereby assumes responsibility for and agrees to defend and to reimburse Trustee with respect to all liabilities, obligations, losses, damages, penalties, claims, actions, costs and expenses (including reasonable attorney's fees) of whatsoever kind and nature, imposed on, incurred by or asserted against Trustee that in any way relate to or arise out of a claim, suit or proceeding based in whole or in part upon the negligent conduct of the Academy, its officers, employees and agents, to the maximum extent permitted by law.

Section 713. Property Insurance. As between the Academy and the Authority, the Academy shall have and assume the risk of loss with respect to the Project, and shall procure and maintain continuously in effect during the Term of this Agreement with respect to the Project, to

the extent of the full replacement cost of the Project, other than land and building foundations, all-risk insurance, subject only to the standard exclusions contained in the policy, in such amount as will be at least sufficient so that a claim may be made for the full replacement cost of any part thereof damaged or destroyed, and including business interruption insurance in an amount sufficient to pay Scheduled Installment Payments for a period of twelve months. All policies (or endorsements or riders) evidencing insurance required in this Section shall be carried in the names of the Academy and Trustee as their respective interests may appear. The Net Proceeds of insurance required by this Section shall be applied as provided in Section 606 hereof; provided that the Net Proceeds of business interruption insurance shall be applied to the payment of Scheduled Installment Payments, Additional Payments and Reserve Fund Payments.

Section 714. Worker's Compensation Insurance. The Academy shall carry or cause to be carried workers' compensation insurance covering all employees on, in, near or about the Project, and upon request, shall furnish to Trustee certificates evidencing such coverage throughout the Term of this Agreement.

Section 715. Other Insurance and Requirements for All Insurance. The Academy shall obtain and maintain or cause to be obtained and maintained during the Term of the Agreement such other insurance policies covering such other risks and in such amounts as are customarily maintained by educational institutions similar to the Academy in the ordinary course of their business. All insurance required by this Article may be carried under a separate policy or a rider or endorsement; shall be taken out and maintained with responsible insurance companies organized under the laws of one of the states of the United States and qualified to do business in the State; and shall contain a provision that the insurer shall not cancel or revise coverage thereunder without giving written notice to all parties at least thirty (30) days before the cancellation or revision becomes effective. The Academy shall deposit with Trustee policies evidencing any such insurance procured by it, or a certificate or certificates of the respective insurers stating that such insurance is in full force and effect. Before the expiration of any such policy, the Academy shall furnish to Trustee evidence that the policy has been renewed or replaced by another policy conforming to the provisions of this Article.

Section 716. Management Agreement. The Academy shall not amend its current Management Agreement or enter into a new Management Agreement relating to the Project, unless prior to entering into such amendment or new Management Agreement the Academy obtains a Favorable Opinion of Bond Counsel with respect to such amendment or new Management Agreement.

## ARTICLE VIII

### ACTIONS AFFECTING AUTHORITY; INTEREST IN THIS AGREEMENT

Section 801. Interest in this Agreement. The Academy shall not assign or transfer its rights or obligations under this Agreement, except as shall be permitted in this Agreement or consented to by the Authority and the Trustee.

Section 802. Authority Assignment of this Agreement. The Academy hereby acknowledges and consents to the assignment and pledge pursuant to the Indenture by the Authority to the Trustee, as additional security for the Series 2007 Bonds, of the Municipal Obligation and this Agreement and all of the Authority's rights and powers under this Agreement, (except the Unassigned Rights) including the right to receive Bond Payments and Additional Payments.

Section 803. Rights of Trustee Hereunder. The terms of this Agreement and the enforcement thereof are essential to the security of the Trustee and are entered into for the benefit of the Trustee. The Trustee shall accordingly have contractual rights and duties in this Agreement and be entitled to enforce separately or jointly with the Authority the terms of this Agreement.

Section 804. Authority Compliance With Indenture. The Authority shall comply with the covenants, requirements and provisions of the Indenture and perform all of its obligations thereunder.

Section 805. Supplements to Indenture. The Authority shall consent to no supplements to the Indenture which have a material effect on the rights or obligations of the Academy or the Trustee without the prior written consent of the Academy and the Trustee, respectively.

## ARTICLE IX

### EVENTS OF DEFAULT AND REMEDIES

Section 901. Events of Default. The term "Events of Default" shall mean, whenever used in this Agreement, any one or more of the following events:

- (a) Failure by the Academy to make a Bond Payment under the Municipal Obligation when due;
- (b) Failure by the Academy to make an Additional Payment hereunder when due;
- (c) Failure by the Academy to observe and perform any other obligations in this Agreement, or in any other related or collateral documents on its part to be observed or performed for a period of forty-five days after written notice specifying such failure and requesting that it be remedied, given to the Academy by the Authority or the Trustee; provided, however, that if said Default shall be such that it cannot be corrected within such period, it shall not constitute an Event of Default if the Default, in the opinion of the Trustee, is correctable without material adverse effect on the Series 2007 Bonds and if corrective action is instituted within such period and diligently pursued until the Default is corrected.
- (d) The dissolution or termination of the Academy or failure by the Academy promptly to lift any execution, garnishment or attachment of such consequences as will materially impair its ability to carry out its obligations under this Agreement or the Academy

becomes insolvent or bankrupt, or makes an assignment for the benefit of creditors or consents to the appointment of a trustee or receiver for the Academy or for the greater part of its properties; or a trustee or receiver is appointed for the Academy or for the greater part of its properties without its consent and is not discharged within 60 days; or bankruptcy, reorganization or liquidation proceedings are commenced by or against the Academy, and if commenced against the Academy are consented to by it or remain undismissed for 60 days; or an order for relief is entered in any bankruptcy proceeding.

(e) If any representation or warranty made by the Academy in any document delivered by the Academy to the purchaser(s) of the Series 2007 Bonds, the Trustee or the Authority in connection with the issuance, sale and delivery of the Series 2007 Bonds is untrue in any material respect.

(f) If the Academy shall default under any other agreement for payment of money in excess of \$25,000 and such default shall not be cured within any period of grace provided in such agreement, if any, or if the Academy shall assign or convey or attempt to assign or convey any of its rights or obligations under this Agreement except as shall be permitted under this Agreement, provided, however, that the Academy shall not be in default under this section, if it is contesting in good faith any default under any such other agreement for the payment of money and, with respect to construction liens, has bonded over such lien to the satisfaction of the Trustee, unless in the estimation of the Trustee the security of the Trustee under this Agreement is materially endangered.

(g) The occurrence of an Event of Default under the Indenture.

(h) The loss of its charter or the failure of the Academy to have its charter renewed, unless a charter from another authorizing body is received on or before the effective date of revocation or nonrenewal and a state aid agreement in form and content the same as the agreement executed in connection herewith is executed by such new authorizing body on or before the effective date of revocation or nonrenewal.

The term "Default" shall mean Default by the Academy in the performance or observance of any of the covenants, agreements or conditions on its part contained in this Agreement, exclusive of any period of grace required to constitute an Event.

The Defaults described in subsection (c) above only, are also subject to the following limitation: If the Academy by reason of force majeure is unable to carry out or observe the obligations described in said subsection (c), the Academy shall not be deemed to be in breach or violation of this Agreement or in default during the continuance of such inability. The term "force majeure" as used herein shall include, without limitation, acts of God, strikes, lockouts or other disturbances; acts of public enemies; inability to comply with or to cause compliance with laws, ordinances, orders, rules, regulations or requirements of any public authority or the government of the United States of America or the State of Michigan or any of their departments, agencies, or officials, or any civil or military authority; inability to procure or cause the procurement of building permits, other permits, licenses or other authorizations required for the construction, use, occupation, operation or management of the Project; insurrections; riots;

epidemics; landslides; lightning; earthquake; fire; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event other than financial inability not reasonably within control of the Academy. The Academy agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the Academy from carrying out its agreements; provided, however, that the settlement of strikes, lockouts and other disturbances shall be entirely within the discretion of the Academy, and the Academy shall not be required to make settlement of strikes, lockouts and other disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Academy not in the best interests of the Academy.

Section 902. Remedies Upon an Event of Default. Whenever any Event of Default shall have occurred and be continuing, the Authority or the Trustee may take any one or more of the following remedial steps:

(a) Declare all indebtedness under this Agreement (i.e., Bond Payments, Additional Payments and all other payments required by this Agreement) to be immediately due and payable, whereupon the payment date for the same shall become immediately accelerated and all such indebtedness shall become immediately due and payable;

(b) Have access to and inspect, examine and make copies of the books and records and any and all accounts, data and income tax and other tax returns of the Academy only, however, insofar as they relate to the Project or the Event of Default and remedying thereof;

(c) Exercise and enforce all or any of its rights under the security interests granted in this Agreement and the Mortgage; and/or

(d) Petition a court of competent jurisdiction for the appointment of a receiver to take possession of and manage and operate all or any part of the assets of the Academy for the benefit of the Authority and the Trustee.

No remedy herein conferred upon or reserved to the Authority or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy now or hereafter existing at law or in equity or by statute.

Any amounts collected pursuant to action taken under this Section shall be paid into the Bond Fund and applied in accordance with the Indenture, except amounts collected pursuant to ARTICLE IV for the benefit of the Authority which shall be paid to or retained by the Authority.

Section 903. Payment of Attorneys' Fees and Other Expenses. In the event the Academy should default under any of the provisions of this Agreement and the Authority and/or the Trustee should employ attorneys or incur other expenses for the collection of the Bond Payments, and Additional Payments, for the enforcement of performance or observance of any obligation of the Academy in this Agreement or of the foreclosure of any security interests

granted in this Agreement, the Academy shall on demand therefor pay to the Authority and/or the Trustee, as the case may be, the reasonable fees of such attorneys and such other reasonable expenses so incurred.

Section 904. Limitation on Waivers. No delay or omission to exercise any right or power occurring upon any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed appropriate. In order to entitle the Authority or the Trustee to exercise any remedy under this Article, it shall not be necessary to give any notice other than such notice as may be herein expressly required.

In the event any agreement contained in this Agreement should be breached by any party and thereafter waived by the other parties, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder nor a waiver of the same breach on a future occasion. By reason of the assignment and pledge of certain of the Authority's rights and interest in this Agreement to the Trustee, the Authority shall have no power to waive or release the Academy from any Event of Default or the performance or observance of any obligation or condition of the Academy under this Agreement without prior written consent of the Trustee, but shall do so if requested by the Trustee, provided that prior to such waiver or release by the Authority, the Authority shall have been provided with an opinion of bond counsel of nationally recognized standing that such action will not result in any pecuniary liability to it and the Authority shall have been provided such indemnification from the Trustee as the Authority shall deem necessary.

## ARTICLE X

### MISCELLANEOUS

Section 1001. Amounts Remaining in Funds. Any amounts remaining in the Bond Fund or the Project Fund upon expiration or sooner termination of this Agreement after payment in full of the Series 2007 Bonds (or provision therefor) in accordance with the Indenture, and all other costs and expenses of the Authority and the Trustee specified under this Agreement, and all the amounts required to be paid by the Academy under this Agreement and the Indenture shall have been fully paid, shall be applied as provided in the Indenture.

Section 1002. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when mailed by registered or certified mail, postage prepaid, return receipt requested, addressed to the Authority, the Academy or the Trustee, as the case may be, at the Authority's Address, the Academy's Address, or the Trustee's Address, respectively, or hand delivered to the above at their respective addresses. A duplicate copy of each such notice, certificate or other communication given hereunder to the Authority or the Trustee shall also be given to the others.

The Authority, the Academy, and the Trustee may by notice given hereunder designate any further or different addresses to which subsequent notices, certificates or communications shall be sent.

Section 1003. Amendment. This Agreement may not be amended or terminated without the prior written consent of the Trustee and the Authority and no amendment to this Agreement shall be binding upon either party hereto until such amendment is reduced to writing and executed by both parties hereto. Amendments to this Agreement are subject to the provisions of Sections 9.03 and 9.04 of the Indenture.

Section 1004. Entire Agreement. This Agreement contains all agreements between the parties and there are no other representations, warranties, promises, agreements or understandings, oral, written or inferred, between the parties, unless reference is made thereto in this Agreement and the Indenture.

Section 1005. Binding Effect. This Agreement shall be binding upon the parties hereto and upon their respective successors and assigns, and the words "Authority," "Academy" and "Trustee" shall include the parties hereto and their respective successors and assigns and include any gender and singular and plural, any individuals, partnerships or corporations.

Section 1006. Severability. If any clause, provision or section of this Agreement be ruled invalid or unenforceable by any court of competent jurisdiction, the invalidity or unenforceability of such clause, provision or section shall not affect any of the remaining clauses, provisions or sections.

Section 1007. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 1008. Captions. The captions or headings in this Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions of this Agreement.

Section 1009. Applicable Law. This Agreement shall be governed in all respects, whether as to validity, construction, performance or otherwise, by the laws of the State of Michigan.

Section 1010. Non-Liability of State. This Agreement shall not be construed to create any liability or indebtedness of the State of Michigan, or of any officer thereof.

Section 1011. Non-Liability of Authorizing Body. The Authority and the Trustee, on behalf of the Bondholder, each understands and agrees that the authorizing body, Bay Mills Community College Board of Regents, has not agreed to assume, undertake or in any way guarantee payment of the Academy's obligations from any source of revenue available to the Authorizing Body, including the administrative fee deducted by the Authorizing Body from the state school aid payments received by the Authorizing Body for the Academy.

Section 1012. The Indenture. The Academy agrees to be bound by the terms of the Indenture applicable to it, and agrees not to take any action which would cause the Authority or the Trustee to violate the terms of the Indenture.



*(Signature to Financing Agreement)*

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

**MICHIGAN PUBLIC EDUCATIONAL  
FACILITIES AUTHORITY**

By: \_\_\_\_\_  
Thomas J. Letavis  
Executive Director

**AMERICAN MONTESSORI ACADEMY**

By: \_\_\_\_\_  
Michael S. Hale  
Its: Board President

**EXHIBIT A  
TO  
FINANCING AGREEMENT**

**BOND PAYMENTS**

See attached.

Schedule of Intercept Amounts Assigned  
Pursuant to the Financing Agreement

**EXHIBIT B  
TO  
FINANCING AGREEMENT  
PROJECT DESCRIPTION**

<u>Date</u>	Principal Component and Portion of Set- Aside Component Allocated to <u>Principal</u>	Interest Component and Portion of Set- Aside Component Allocated to <u>Interest</u>	Scheduled Fee Payment <u>Component</u>	<u>Total</u>
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See attached.

The Project consists of the acquisition of the Academy's current school facility consisting of approximately 21,300 square feet located at 14800 Middlebelt Road, Livonia, Michigan 48154.

**EXHIBIT C  
TO  
FINANCING AGREEMENT  
REQUISITION CERTIFICATE**

TO: The Bank of New York Trust Company, N.A., Trustee, and  
Michigan Public Educational Facilities Authority

FROM: American Montessori Academy (the "Academy")

RE: \$3,900,000 Michigan Public Educational Facilities Authority Limited Obligation  
Revenue Bonds (American Montessori Academy Project), Series 2007

This represents Requisition Certificate No. \_\_\_ in the total amount of \$ \_\_\_\_\_ to  
pay those costs of the Project detailed in the schedule attached.

The undersigned certifies that:

1. The expenditures for which moneys are requisitioned hereby represent proper charges against the Project Fund for the above-named Series 2007 Bonds, have not been included in a previous requisition and have been properly recorded on the Academy's books.
2. The moneys requisitioned hereby are not greater than those necessary to meet obligations due and payable or to reimburse the Academy for its funds actually advanced for the costs of the Project.
3. After payment of moneys hereby requested, there will remain in the Project Fund or otherwise available to the Academy sufficient funds available to complete the Project.
4. Delivered herewith are copies of invoices or other appropriate documentation supporting the payments or reimbursements requested.
5. No Default or Event of Default under any of the Bond Documents has occurred and continues.

Capitalized terms used but not defined herein shall have the meanings given in the Financing Agreement and Indenture.

Executed this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

**AMERICAN MONTESSORI ACADEMY**

By: \_\_\_\_\_  
Authorized Academy Representative

**EXHIBIT D  
TO  
FINANCING AGREEMENT  
COMPLETION CERTIFICATE**

TO: The Bank of New York Trust Company, N.A., Trustee, and  
Michigan Public Educational Facilities Authority

FROM: American Montessori Academy (the "Academy")

RE: \$3,900,000 Michigan Public Educational Facilities Authority  
Limited Obligation Revenue Bonds (American Montessori Academy Project),  
Series 2007

The undersigned does hereby certify:

1. The construction, if any, acquisition, equipping, refinancing and furnishing of the Project have been completed in accordance with the descriptions submitted to the Authority and in such manner as to conform with all requirements of the Agreement, as of the date of this Certificate (the "Completion Date"). All approvals and certificates necessary to the occupancy and use of the facilities comprising the Project as a public school academy have been received in writing and all conditions appertaining thereto have been met.
2. The Project costs have been paid in full except those not yet due and payable, or which are being contested, which are described below and for which sufficient moneys for payment thereof are being held in the Project Fund:

(a) Cost of the Project not yet due and payable:

<u>Description</u>	<u>Amount</u>
	\$ _____
	\$ _____
TOTAL	\$ _____

(b) Payments being contested:

<u>Description</u>	<u>Amount</u>
	\$ _____
	\$ _____
TOTAL	\$ _____

3. The moneys in the Project Fund in excess of the totals set forth in 2(a) and (b) above represent Surplus Bond Proceeds and the Trustee is hereby authorized and directed to transfer such moneys to the Bond Fund in accordance with Section 605 of this Agreement.

4. No event of default has occurred under the Agreement, nor has any event occurred which, with the giving of notice or lapse of time or both, shall become an event of default. Nothing has occurred to the knowledge of the Academy that would prevent the performance of its obligations under the Agreement.

This certificate is given without prejudice to any rights against third parties which exist at the date hereof or which may subsequently come into being.

Executed this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_.

**AMERICAN MONTESSORI ACADEMY**

By: \_\_\_\_\_  
Authorized Academy Representative

**EXHIBIT E  
TO  
FINANCING AGREEMENT  
FORM OF MUNICIPAL OBLIGATION**

No: R-1

\$ \_\_\_\_\_

**UNITED STATES OF AMERICA  
STATE OF MICHIGAN  
COUNTY OF WAYNE**

**AMERICAN MONTESSORI ACADEMY**

**SCHOOL BUILDING AND SITE BOND, SERIES 2007**

Holder: MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY (the  
"Authority")

Principal Amount:

American Montessori Academy, a Michigan public school academy (the "Issuer"), for value received, hereby promises to pay to the Holder specified above, or its assigns, the Principal Amount specified above at the times and in the amounts specified on the Schedule of Bond Payments, which schedule is attached as Exhibit A to the Financing Agreement, dated as of December 1, 2007 (the "Financing Agreement") between the Michigan Public Educational Facilities Authority and the Issuer, a copy of which Exhibit A is attached hereto, unless prepaid according to the terms and conditions of the Financing Agreement and the Trust Indenture between the Michigan Public Educational Facilities Authority and The Bank of New York Trust Company, N.A., dated as of December 1, 2007 (the "Trust Indenture"). Interest shall be computed and paid as provided in the Financing Agreement and the Trust Indenture.

This bond is issued pursuant to and in full compliance with the Constitution and laws of the State of Michigan (the "State"), particularly Act No. 451, Michigan Public Acts, 1976, as amended ("Act No. 451") and is authorized by a resolution of the board of directors of the Issuer adopted \_\_\_\_\_, 2007, for the purpose of financing on behalf of the Academy (1) the \$\_\_\_\_\_ purchase price of the land and an existing approximately 21,300 square foot building and related improvements, which land and building have an appraised value of \$3,200,000, all to be located at 14800 Middlebelt Road, Livonia, Michigan (the "Site") and occupied by the Issuer for use as a public school academy; and (2) the funding of costs of issuance and other financing costs related to the Authority Bonds (collectively, the "Project").

This bond and the interest hereon are general obligations of the Issuer and payable, as a first budget obligation, from any funds of the Issuer available therefor and for the prompt payment of the principal of and interest on this bond, the full faith and credit of the Issuer is hereby irrevocably pledged. Pursuant to the Financing Agreement and the State Aid Agreement dated December 1, 2007 between the Issuer, the Authority, the Bay Mills Community College Board of Regents, as the authorizing body of the Issuer, and the Treasurer of the State of Michigan, the Issuer has irrevocably pledged its state aid as security for the payment of this bond. The Issuer covenants to annually make an irrevocable appropriation of a sufficient amount of the Pledged State Aid, as that term is defined in the Financing Agreement, for the payment of the principal of this bond, together with the interest hereon.

NO MORE THAN TWENTY PERCENT (20%) OF THE STATE SCHOOL AID RECEIVED BY THE ACADEMY IN EACH FISCAL YEAR MAY BE LEGALLY AVAILABLE TO PAY SCHEDULED PRINCIPAL AND INTEREST ON THE BOND. THIS BOND DOES NOT CONSTITUTE AN OBLIGATION, EITHER GENERAL, SPECIAL, OR MORAL, OF THE STATE OF MICHIGAN, BAY MILLS COMMUNITY COLLEGE (THE AUTHORIZING BODY OF THE ACADEMY), OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR ANY TAXING POWERS OF THE STATE, BAY MILLS COMMUNITY COLLEGE OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF PRINCIPAL AND INTEREST WITH RESPECT TO THIS BOND. THE ISSUER HAS NO TAXING POWER.

Pursuant to the Financing Agreement, by purchasing this bond, the Authority is loaning the Issuer the proceeds received from the sale of the Authority's \$\_\_\_\_\_ aggregate principal amount of Limited Obligation Revenue Bonds, Series 2007 (American Montessori Academy Project), dated the date of their initial delivery to the original purchasers thereof (the "Authority Bonds"), to fund the Project. The Issuer has agreed to repay such loan at the times and in the amounts sufficient for the Authority to make payments of the principal of and redemption premium, if any, and interest on the Authority Bonds as and when due and as initially set forth on the Schedule of Bond Payments attached hereto as Exhibit A and as may be modified from time to time in accordance with the provisions of the Financing Agreement. The Authority Bonds are being issued concurrently with the execution and delivery of this bond, pursuant to, and are secured by, the Trust Indenture. The Issuer has reserved the right to issue additional obligations of equal standing with this bond as to the Security (as defined in the Trust Indenture), subject to the limitations provided by law and subject to the limitations set forth in the Financing Agreement.

It is hereby certified and recited that all acts, conditions and things required by law, precedent to and in the issuance of this note have been done, exist and have happened in regular and due time and form as required by law, and that the total indebtedness of the Issuer, including this bond, does not exceed any constitutional or statutory limitation.

This bond is issued under and is subject to the terms and conditions of the Financing Agreement.

This bond is to be construed in accordance with the laws of the State of Michigan.

IN WITNESS WHEREOF, the Issuer, by its Board of Directors, has caused this bond to be executed in its name by its duly authorized officer as of the \_\_\_\_ day of \_\_\_\_\_, 2007.

**AMERICAN MONTESSORI ACADEMY**

By: \_\_\_\_\_  
Michael S. Hale  
Its: President

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**APPENDIX E**

**FORM OF OPINION OF BOND COUNSEL**

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December 20, 2007

Michigan Public Educational Facilities Authority  
Richard H. Austin State Office Building  
Lansing, Michigan 48922

We have acted as bond counsel to the Michigan Public Educational Facilities Authority (the "Authority"), in connection with the issuance by the Authority of its Limited Obligation Revenue Bonds (American Montessori Academy Project), Series 2007 in the aggregate principal amount of \$3,900,000 (the "Bonds"). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

The Bonds are authorized to be issued by Executive Order No. 2002-3, compiled at §12.192 of the Michigan Compiled Laws, the Shared Credit Rating Act, Act No. 227 of the Public Acts of 1985 of the State, as amended, and the Michigan Strategic Fund Act, Act No. 270 of the Public Acts of 1984 of the State, as amended (the "Enabling Legislation"), a bond authorizing resolution adopted by the Authority on October 18, 2007 (the "Bond Resolution") and a Trust Indenture dated as of December 1, 2007 (the "Indenture") between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), for the purpose of providing funds which will be used to (i) purchase the obligation (the "Municipal Obligation") of American Montessori Academy, a public school academy organized under the laws of the State of Michigan (the "Academy"), evidenced by a Financing Agreement dated as of December 1, 2007 (the "Financing Agreement") between the Academy and the Authority, and (ii) pay costs of issuance of the Bonds. The Academy will use the proceeds of the Bonds to acquire a certain public school academy facility.

Under the Financing Agreement, the Academy has agreed to make installment payments to be used to pay when due the principal of, premium (if any) and interest on the Bonds. Such installment payments and other payments and revenues under the Financing Agreement (collectively, the "Security") and the rights of the Authority under the Financing Agreement (except certain rights to indemnification, reimbursement and administrative fees) are pledged and assigned by the Authority to the Trustee as security for the Bonds pursuant to the Indenture. The Bonds are payable solely from the Security.

As additional security for the Bonds, the Academy will execute and deliver a mortgage (the "Mortgage") in favor of the Trustee whereby the real estate financed with the proceeds of the Bonds will be pledged to the Trustee to secure the Academy's obligations under the Financing Agreement. We note that various issues concerning the enforceability of the Mortgage are addressed in the opinion of Clark Hill PLC, counsel to the Academy, provided to

you, and we express no opinion herein as to the validity or enforceability of the Mortgage or any of the liens created thereby.

With respect to the valid existence of the Academy as a Michigan public school academy, the power of the Academy to enter into and perform its obligations under the Financing Agreement and other documents to which it is a party, the due authorization, execution and delivery of the Financing Agreement, the Municipal Obligation and the other documents to which the Academy is a party and the validity and enforceability of them against the Academy, we refer you to the opinion of Clark Hill PLC, counsel to the Academy, dated the date of this letter and addressed to you.

We have assumed the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Trustee of the Indenture.

As to questions of fact material to our opinion, we have relied upon representations of the Authority and the Academy contained in the Financing Agreement and the Indenture, the certified proceedings and other certifications of public officials and others furnished to us, including a nonarbitrage and tax compliance certificate of the Authority and the Academy and certifications furnished to us by or on behalf of the Authority and the Academy, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Authority is a public body corporate and politic validly existing under the laws of the State of Michigan with the power to enter into and perform its obligations under the Indenture and the Financing Agreement and to issue the Bonds.

2. The Indenture has been duly authorized, executed and delivered by the Authority and is a valid and binding obligation of the Authority enforceable upon the Authority in accordance with its terms. The Indenture creates a valid lien on the Security and on the rights of the Authority under the Financing Agreement (except certain rights to indemnification, reimbursement and administrative fees).

3. The Bonds have been duly authorized, executed and delivered by the Authority, and are valid and legally binding limited obligations of the Authority, payable solely from the Security.

4. The interest on the Bonds (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, it should be noted that certain corporations must take into account interest on the Bonds in determining adjusted current earnings for the purpose of computing such alternative minimum tax imposed on such corporations. This opinion set forth in clause (a) above is subject to the condition that the Authority and the Academy comply with all requirements of the Internal Revenue Code of 1986,

as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. The requirements include rebating certain earnings to the United States. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The Academy, on behalf of itself and the Authority, has covenanted to comply with all such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Bonds and the interest thereon.

5. The Bonds and the interest thereon are exempt from all taxation of the State of Michigan or a subdivision thereof, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

We express no opinion herein regarding (i) the accuracy, adequacy or completeness of any disclosure document relating to the Bonds or (ii) the perfection or priority of the lien on the Security or other funds created by the Indenture. Further, we express no opinion regarding tax consequences arising with respect to the Bonds other than an expressly set forth herein.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

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**APPENDIX F**

**FORM OF OPINION OF THE  
ATTORNEY GENERAL**

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## APPENDIX F

### FORM OF OPINION OF THE ATTORNEY GENERAL

\_\_\_\_\_, 2007

Michigan Public Educational Facilities Authority  
Richard H. Austin State Building  
Lansing, Michigan 48909

In my capacity as Attorney General of the State of Michigan, I have caused to be examined a closing transcript and, in particular, the following documents relating to the issuance by the Michigan Public Educational Facilities Authority (the "Authority") of bonds designated MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY LIMITED OBLIGATION REVENUE BONDS (AMERICAN MONTESSORI ACADEMY PROJECT), SERIES 2007 in the aggregate principal amount of \$ \_\_\_\_\_ (the "Bonds"):

(1) Executive Order 2002-3, the Shared Credit Rating Act, 1985 PA 227, as amended, and the Michigan Strategic Fund Act, 1984 PA 270, as amended, (the "Enabling Legislation") which collectively, created the Authority and empowered it to issue revenue bonds;

(2) a certified copy of the resolution adopted by the Authority on \_\_\_\_\_ authorizing the issuance of the Bonds (the "Resolution");

(3) an executed counterpart of the trust indenture dated as of \_\_\_\_\_, 2007 (the "Indenture"), entered into between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee");

(4) an executed counterpart of the financing agreement dated as of \_\_\_\_\_, 2007 (the "Financing Agreement") entered into by the Authority and American Montessori Academy, a Michigan public school academy (the "Academy");

(5) executed counterparts of the state aid agreement dated as of \_\_\_\_\_ 1, 2007, (the "State Aid Agreement") among the Authority, Trustee, the State Treasurer, the Academy's authorizing body, and the Academy.

(6) a Nonarbitrage Certificate of the Authority;

(7) one Bond, as executed, or a specimen thereof; and

(8) one bond issued by the Academy (the "Municipal Obligation").

The Bonds are being issued for the purpose of (i) purchasing the Academy's Municipal Obligation as evidenced by the Financing Agreement; (ii) fund a debt service reserve fund; and (iii) provide funds to pay certain costs relating to the issuance of the Bonds and the Municipal Obligation. The Academy will use the proceeds of the Bonds to acquire and equip a certain public school facility in the City of Livonia, County of Wayne, Michigan.

By the terms of the Financing Agreement, the Academy has contracted to make repayments at times and in amounts sufficient to enable the Authority to pay the principal of, premium, if any, and interest on the Bonds. Pursuant to the Indenture, the repayments to the Authority from the Academy and certain rights of the Authority (to the extent specified in the Indenture) have been assigned by the Authority to the Trustee as security for the Bonds.

The Academy will execute and deliver a future advance mortgage from the Academy (the "Mortgage") in favor of the Trustee as additional security for the Bonds.

In rendering this opinion, I have relied upon the opinion, dated today, of Clark Hill, P.C. counsel for the Academy, to the effect that the Financing Agreement and Mortgage are valid and binding obligations of the Academy and as to other matters set forth in the opinion. I express no opinion as to the validity or enforceability of the Financing Agreement, the Municipal Obligation, Mortgage, or any liens created thereby. I have assumed the due authorization, execution, and delivery by, and the binding effect upon and the enforceability against, the Trustee of the Indenture. I have also assumed the accuracy of and relied upon the information and representations contained in the Financing Agreement and the certificates of the Academy (including specifically the representation that the Academy is a public school academy under Michigan law and the representation and covenant by the Academy that it will comply with Section 148 of the Internal Revenue Code of 1986, as amended (the "Code") and I have made no independent investigation of the accuracy of the information and representations contained therein.

Based on the foregoing, I am of the opinion that, under existing law as presently interpreted:

1. The Authority is a public body corporate and politic of the State duly organized and validly existing under the Constitution and the laws of the State, including particularly the Enabling Legislation.
2. The Authority has the power under the laws of the State to adopt the Resolution. The Resolution has been duly adopted by the Authority, is in full force and effect in the form adopted, and is the valid and binding action of the Authority.
3. The Indenture, the Financing Agreement, and the State Aid Agreement have been duly authorized, executed, and delivered by the Authority and constitute valid and binding agreements of the Authority enforceable in accordance with their terms.



4. The Bonds have been duly authorized, executed, and delivered by the Authority and, when duly authenticated, will constitute valid and binding limited obligations of the Authority enforceable in accordance with their terms, payable as to the principal of, premium, if any, and interest thereon solely from the security pledged therefor under the Indenture (which security includes the Municipal Obligation) or otherwise provided by the Academy.

5. The Bonds are limited obligations of the Authority. The Bonds, including the interest thereon, are not general obligations of the Authority and do not constitute obligations, debts, or liabilities of the State and do not constitute a charge against the general credit of the Authority or a charge against the credit or taxing power of the State. The Authority has no taxing power.

6. Interest on the Bonds (i) is excluded from gross income for federal income tax purposes, and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), interest on the Bonds is taken into account in determining adjusted current earnings. This opinion is subject to the condition that the Academy and the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest on the Bonds be, or continue to be, excluded from gross income for federal income tax purposes. The Academy has covenanted for itself and on behalf of the Authority to comply with each such requirement. Failure to comply with certain of those requirements could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. I express no opinion regarding other federal tax consequences arising with respect to the Bonds.

7. The Bonds and the interest thereon are exempt from all taxation provided by the laws of the State except estate taxes and taxes on gains realized from the sale, payment, or other disposition thereof.

Enforceability of the Bonds, the Financing Agreement and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium, and other laws affecting creditors' rights that have been or in the future will be enacted to the extent constitutionally applicable and their enforcement may be subject to the exercise of judicial discretion including the application of general principles of equity.

I express no opinion on the investment quality of the Bonds or whether the facts, figures, or financial information or other statements made respecting the Academy contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make those statements, in the light of the circumstances under which they were made, not misleading.

This opinion is given as of date hereof and I assume no obligation to supplement or update this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Sincerely yours,

MIKE COX  
Attorney General

\_\_\_\_\_  
Assistant Attorney General

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Assistant Attorney General

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**APPENDIX G**

**FORM OF CONTINUING  
DISCLOSURE AGREEMENT**

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CONTINUING DISCLOSURE AGREEMENT

between

AMERICAN MONTESSORI ACADEMY

and

THE BANK OF NEW YORK TRUST COMPANY, N.A.  
as Dissemination Agent

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Dated as of December 1, 2007

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Relating to:

\$\_\_\_\_\_ Limited Obligation Revenue Refunding Bonds  
(American Montessori Academy Project), Series 2007

Michigan Public Educational Facilities Authority

THIS CONTINUING DISCLOSURE AGREEMENT, dated as of the 1st day of December, 2007 (this "Agreement"), between AMERICAN MONTESSORI ACADEMY, a public school academy of the State of Michigan (the "Academy"), and THE BANK OF NEW YORK TRUST COMPANY, N.A., a national banking association, as Dissemination Agent (the "Dissemination Agent"),

W I T N E S S E T H:

WHEREAS, this Agreement is being executed in connection with the issuance by the Michigan Public Educational Facilities Authority (the "Authority") of \$\_\_\_\_\_ in aggregate principal amount of its Limited Obligation Revenue Refunding Bonds (American Montessori Academy Project), Series 2007 (the "Bonds");

WHEREAS, the Bonds are being issued pursuant to a Trust Indenture dated as of December 1, 2007 (the "Indenture"), by and among the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The proceeds of the Bonds are being used to reimburse the Academy for project costs and other uses as described in the Indenture; and

WHEREAS, to provide for the availability of certain information relating to the Bonds and the Academy and the security therefor and to permit participating underwriters of the Bonds to comply with certain amendments to Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (17 C.F.R. § 240.15c2-12), which will enhance the marketability of the Bonds, the Academy and Dissemination Agent desire to enter into this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto DO HEREBY AGREE as follows:

Section 1. Definitions and Exhibits. (a) Terms used with initial capital letters but not defined herein shall have the meanings given such terms in the Indenture, unless the context hereof clearly requires otherwise.

In addition, the following terms, when used herein, have the following respective meanings:

Bondowner or Owner: in respect of a Bond, the registered owner or owners thereof appearing in the bond register maintained by the Trustee or any beneficial owner thereof, if such owner provides to the Trustee evidence of such beneficial ownership in form and substance reasonably satisfactory to the Trustee.

Disclosure Information: shall have the meaning assigned in Section 4 hereof.

Material Fact: a fact as to which a substantial likelihood exists that a reasonably prudent investor would attach importance thereto in deciding to buy or sell a Bond or, if not disclosed, would significantly alter the total information otherwise available to an investor from the Official Statement, information disclosed hereunder or information generally available to the public. Notwithstanding the foregoing, a "Material Fact" is also an event or condition that would be deemed "material" for purposes of the purchase or sale of a Bond within the meaning of

applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event or condition.

MSRB: the Municipal Securities Rulemaking Board or any successor to its functions.

National Repository: as of the date of determination, a nationally recognized municipal securities information repository designated by the SEC to serve as such under subsection (b) of the Rule. The names and addresses of all current National Repositories should be verified each time information is delivered to National Repositories pursuant to this Agreement.

Official Statement: the Official Statement dated December \_\_, 2007, relating to the Bonds, as amended or supplemented to the date of issuance of the Bonds.

Participating Underwriters: Fifth Third Securities, Inc. and any other original underwriter of the Bonds required to comply with the Rule in connection with the primary offering of the Bonds for sale.

Person: any individual, corporation, partnership, limited liability company, limited liability partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

Purchaser: any Person who purchases or otherwise receives all or any portion of the Bonds from an Owner, which Purchaser is required to be an Approved Investor as defined in the Indenture.

Rating Agency: Standard & Poor's Rating Group, Moody's Investors Service, Fitch IBCA, Inc. or any of their successors or any other nationally recognized rating agency.

Repositories: as of the date of determination, each National Repository and any State Depository; provided, however, in the case of information to be disseminated under Subsections (b), (c), (d), (e), (f) or (g) of Section 5 hereof, as of the date such information is to be disseminated hereunder, the "Repositories" shall be the MSRB and any State Depository.

Rule: Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 C.F.R. § 240.15c2-12), as in effect and interpreted from time to time.

SEC: the Securities and Exchange Commission or any successor to its functions governing state and municipal securities disclosure.

State: the State of Michigan.

State Depository: as of the date of determination, any state information depository operated or designated by the State qualifying as a "state information depository" within the meaning of paragraph (b)(5) of the Rule. As of the date of this Agreement, the only State Depository and its address and telephone number are as follows:

Municipal Advisory Council of Michigan  
1445 First National Bank Building  
Detroit, Michigan 48226-3517  
Tel: (313) 963-0420  
Fax: (313) 963-0943  
<http://www.macmi.com>  
Email for filings: [mac@macmi.com](mailto:mac@macmi.com)

Section 2. Representations. Each of the parties hereto represents and warrants to each other party that (i) it has all requisite power and authority to execute, deliver and perform this Agreement under applicable law and any resolutions or other actions of such party now in effect, (ii) it has duly authorized the execution and delivery of this Agreement, (iii) the execution and delivery of this Agreement and performance of the terms hereof by such party do not and will not violate any law, regulation, ruling, decision, order, indenture, decree, agreement or instrument to which it is a party or by which it is bound, and (iv) to its best knowledge, no litigation, proceeding or administrative matter is pending to which it is a party, or overtly threatened, contesting or questioning the legal existence of such party, its power and authority to enter into and perform this Agreement or its due authorization, execution and delivery of this Agreement.

The Academy represents and warrants that it is the only “obligated person” in respect of the Bonds within the meaning of the Rule.

Section 3. Appointment of Dissemination Agent as Agent. The Academy hereby appoints the Dissemination Agent as its agent for the purpose of disclosing the information described in this Agreement in the manner set forth herein.

The Dissemination Agent hereby accepts such appointment, subject to the terms and conditions of this Agreement. In the event that the Dissemination Agent, in its reasonable opinion, determines that during the continuation of an Event of Default under the Indenture the activities of the Dissemination Agent hereunder conflict with any of its duties and responsibilities as the Trustee under the Indenture, the Dissemination Agent need not undertake such activities hereunder. The Dissemination Agent will promptly inform the Academy and the Participating Underwriters in writing of any such determination.

The inability of the Dissemination Agent to undertake certain activities under this Agreement as provided in the immediately preceding paragraph shall not relieve or otherwise affect the responsibilities of the Academy to furnish the information required to be provided by it pursuant to this Agreement directly to the Repositories without the agency of the Dissemination Agent. In such event, the Academy may enter into an agreement on substantially the terms hereof providing for the activities of a new dissemination agent.

Section 4. Annual Financial Information and Reports of the Academy. (a) The Academy shall on or before 150 days after the close of the Academy’s fiscal year in each year, commencing for the fiscal year ended June 30, 2007 (the “Annual Submission Date”), deliver to the Dissemination Agent the financial information and operating data relating to the Academy



for the preceding fiscal year as hereinafter specified (the “Annual Disclosure Information”), accompanied by a certificate executed by an authorized officer of the Academy stating in effect that such information is the Annual Disclosure Information required to be submitted under this Section 4(a). The Academy may change the Annual Submission Date to the Dissemination Agent if it changes its fiscal year; provided however, that the new Annual Submission Date shall be not later than 150 days after the end of each new fiscal year of the Academy and the first such new Annual Submission Date shall not be more than one year after the last preceding Annual Submission Date.

The Annual Disclosure Information shall comprise the following (subject to modification as provided in Sections 9 and 11 hereof):

A complete audit report and opinion of an accountant and the consolidated or combined financial statements of the Academy for such fiscal year, containing balance sheets as of the end of such fiscal year and a statement of activities and statement of cash flows for the fiscal year then ended, and showing in comparative form such figures for the preceding fiscal year of the Academy prepared in accordance with generally accepted accounting principles promulgated by the Financial Accounting Standards Board applicable to entities such as the Academy as in effect from time to time, or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles for reasons beyond the reasonable control of the Academy, noting the discrepancies therefrom and the effect thereof., together with blended (if available) and actual enrollment and per pupil foundation allowance operating data of the type included in the Official Statement.

The Academy, on or before 45 days after the end of each fiscal quarter commencing with the fiscal quarter ended June 30, 2007 (the “Quarterly Submission Date”), is to deliver to the Dissemination Agent certain financial information relating to the Academy as hereinafter specified (the “Quarterly Disclosure Information”) together with a certificate of the chief financial officer of the Academy that such financial information is the Quarterly Disclosure Information required to be submitted under this Section 4(a). The Quarterly Disclosure Information shall comprise the following (subject to modification as provided in Sections 9 and 11 hereof):

Unaudited consolidated or combined financial statements of the Academy for such fiscal quarter consisting of at least statements of financial position as of the end of such quarter and statements of activities for such fiscal quarter and year to date, each prepared in accordance with generally accepted accounting principles promulgated by the Financial Accounting Standards Board, as in effect from time to time (subject to year end adjustments and except such financial statements may omit footnotes that would be required by generally accepted accounting principles), consistently applied, or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles for reasons beyond the reasonable control of the Academy, noting the discrepancies therefrom and the effect thereof. Such financial statements shall be certified as true, correct and complete by the chief financial officer of the Academy to the best of his or her knowledge.

The Annual Disclosure Information and the Quarterly Disclosure Information are herein together referred to as the “Disclosure Information.”

Any or all of the Disclosure Information may be incorporated, if it is updated as required hereby, by reference from other documents, including official statements, which have been submitted to each of the Repositories or the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Academy shall clearly identify in the Disclosure Information each document so incorporated by reference.

If any part of the Disclosure Information can no longer be generated because the operations of the Academy have changed or been discontinued, such Disclosure Information need no longer be provided if the Academy includes in the Disclosure Information a statement to such effect, provided, however, that if such operations have been replaced by other operations of the Academy in respect of which data is not included in the Disclosure Information and the Academy determines that certain specified data regarding such replacement operations would be a Material Fact, then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations.

If the Disclosure Information is changed or this Agreement is amended as permitted by this Section 4(a) or Section 11 hereof, then the Academy shall include in the next Disclosure Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

(b) The Academy shall also provide to the Dissemination Agent timely written notice of any of the following events or conditions of which any of its officers or directors has actual knowledge and which is a Material Fact (as used herein, the “Material Events”):

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the security;
7. Modifications to rights of security holders;
8. Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities; and
11. Rating changes.

(c) The Academy agrees to notify the Dissemination Agent promptly of: (1) any change in, or the withdrawal of, any rating of the Bonds by a Rating Agency of which it receives notice; (2) any change in the accounting principles pursuant to which the financial statements constituting a portion of the Disclosure Information are prepared; and (3) any change in the fiscal year of the Academy.

(d) The Academy shall provide to the Participating Underwriters and the Dissemination Agent (i) within 150 days after the end of each fiscal year, audited financial statements of the Academy for such fiscal year, (ii) no later than ten (10) Business Days after submission thereof, the pupil count number furnished by the Academy as the basis for calculation and receipt of State revenues, (iii) within 45 days after the end of each fiscal quarter, unaudited financial statements of the Academy for such fiscal quarter and cumulative for all fiscal quarters in such fiscal year to date; (iv) all Material Facts, if any, disclosed at the same time as such disclosure is made; (v) upon request, within ten (10) business days of the beginning of each month, current enrollment data; (vi) within ten (10) business days of any change thereto, the amount of state aid allocated to the Academy; (vii) within ten (10) business days after adoption by the Board of Directors of the Academy, the annual budget of the Academy; (viii) any notice of non-compliance, or similar notification, from either the State or the authorizing body; and, (ix) within ten (10) business days of a written request therefor from the Participating Underwriters, the Authority and the Trustee copies of any previously created or existing document, report or information reasonably relating to the transactions described herein.

Section 5. Disclosure to Public. The Dissemination Agent is authorized and directed to make available to each of the Repositories (or to any SEC-approved Central Post Office) the following information in a timely manner by telecopy, overnight delivery, mail or other means, as appropriate:

- (a) the Disclosure Information provided pursuant to Section 4(a) hereof;
- (b) any Material Event reported to the Trustee by the Academy under Section 4(b) hereof in the form provided by the Academy;
- (c) notice of any of the following events of which an officer of the Dissemination Agent responsible for the administration of the Indenture has actual knowledge:
  - (i) default in the payment of principal of or interest on any Bonds;
  - (ii) the giving of the notice of redemption of any Bonds (other than mandatory sinking fund redemption) or the receipt by the Trustee of irrevocable instructions to give any such notice, together with a copy of such notice of redemption;
  - (iii) the discharge of the Indenture or the defeasance of any Bonds under Section 5.01 of the Indenture; and
  - (iv) any change in, or the withdrawal of, any rating of the Bonds by a Rating Agency;
- (d) the failure of the Academy to provide the Disclosure Information required to be provided to the Dissemination Agent hereunder, after notice and the cure period provided in Section 8 hereof; and
- (e) any amendment of or supplement to this Agreement entered into in accordance with Section 11 hereof, together with a copy of such amendment or supplement and any explanation provided by the Academy pursuant to Section 11 hereof; and

(f) the termination of the obligations of the Academy under this Agreement in respect of the Bonds pursuant to Sections 9 or 14 hereof; and

(g) a change in accounting principles or a change in fiscal year reported to the Dissemination Agent by the Academy under Section 4(c) hereof.

At the written request of the Academy, the Dissemination Agent shall, at the expense of the Academy, also furnish promptly to the Repositories a copy of any other information provided by the Academy for such dissemination.

Section 6. Disclosure to Bondowners and Rating Agencies. The Dissemination Agent is further authorized and directed to forward in an appropriate manner to any Rating Agency then maintaining a rating of the Bonds and, at the expense of such Bondowner, to any Bondowner who requests in writing such information, any information transmitted to the Repositories under Section 5 hereof, at the time of such transmission or, if such information is transmitted with a subsequent time of release, at the time such information is to be released.

Nothing in this Agreement is intended to limit the ability of the Trustee to communicate with the Bondowners in such manner and at such times as it shall deem appropriate in executing the trusts under the Indenture. The Dissemination Agent shall not be required to forward any such communication to the Repositories (or to any Rating Agency under this Section 6), unless and only to the extent it is specifically described in Section 5 hereof. The Academy acknowledges and agrees that the Dissemination Agent may, in its discretion, however, make any communication with Bondowners available to the Repositories and the Rating Agencies, unless the Dissemination Agent determines that such disclosure would adversely affect the security or interests of the Owners of the Bonds.

Section 6A. Disclosure Incident to Resale. The Academy agrees to provide any Owner or Purchaser, upon request and within five (5) business days of receipt by the Academy of such request, with a) a very brief statement of the nature of the business of the Academy and the products and services offered by the Academy; b) the Academy's most recent balance sheet and profit and loss and retained earnings statements, and similar financial statements for the two preceding fiscal years (audited to the extent reasonably available).

Section 7. Costs, Expenses and Indemnification of Dissemination Agent. (a) The Academy hereby agrees to pay reasonable compensation of the Dissemination Agent for, and all costs and expenses of the Dissemination Agent incurred in, performing the services required of it under this Agreement, whether as agent for the Academy or otherwise. The Academy hereby acknowledges and agrees that such compensation, costs and expenses constitute payments due under Section 7.02 of the Indenture, and all parties hereto acknowledge and agree that for the payment of such amounts and the indemnity granted in Subsection (b) of this Section 7 the Trustee shall have the right to use and apply trust money, to the extent provided in the Indenture.

(b) Article VII of the Indenture is hereby made applicable to the Dissemination Agent as if said Sections were (solely for this purpose) contained in this Agreement. The Dissemination Agent shall have only such duties as are specifically set forth in this Agreement. The obligations

of the Academy under this Section shall survive resignation or removal of the Dissemination Agent for any reason and payment of the Bonds.

Section 8. Defaults and Remedies. Subject to Section 3 hereof, failure of the Academy or the Dissemination Agent to comply with any provisions of this Agreement on its part to be observed shall constitute a default hereunder and any party hereto aggrieved thereby, including the Owners of any Outstanding Bonds as third-party beneficiaries hereof, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained herein, including a proceeding for a writ of mandamus or specific performance. Direct, indirect, consequential and punitive damages shall not be recoverable by any Person for any default hereunder and are hereby waived to the extent permitted by law. Notwithstanding anything to the contrary contained herein, in no event shall a default under this Agreement constitute a default or an Event of Default under the Bonds or the Indenture.

In addition to the foregoing remedies, in the event the Academy breaches its covenant under Section 4 hereof to provide the Annual Disclosure Information to the Dissemination Agent by the Annual Submission Date or to provide the Quarterly Disclosure Information to the Dissemination Agent by the Quarterly Submission Date, and such breach continues for a period of thirty (30) days after there has been given, by certified mail, to the Academy by the Dissemination Agent, or to the Academy and the Dissemination Agent by any Owner of an Outstanding Bond, a written notice stating that it is a “Notice of Default” hereunder specifying such breach and requiring it to be remedied, then the Dissemination Agent shall promptly make available to the Repositories notice of the failure of the Academy to provide the Disclosure Information.

Section 9. Binding Effect; Bondowners as Third-Party Beneficiaries. This Agreement shall inure to the benefit of and shall be binding upon the Academy and the Dissemination Agent and their respective successors and permitted assigns, provided, however, that in the event another Person succeeds to the obligations and agreements of the Academy under this Agreement and the Academy is released from its obligations under the Indenture, (i) the Academy shall be released from all further covenants and agreements contained herein, and (ii) the Disclosure Information may be modified to the extent permitted by Section 11 hereof. In addition, this Agreement shall constitute a third-party beneficiary contract for the benefit of the Owners from time to time of the Outstanding Bonds. Said third-party beneficiaries shall be entitled to enforce performance and observance by the parties of the respective agreements and covenants herein contained as fully and completely as if said third-party beneficiaries were parties hereto; provided that this Agreement (other than this Section 9) may be amended or supplemented from time to time without notice to or the consent of such third-party beneficiaries. Nothing in this Agreement, express or implied, shall give to any Person, other than the parties hereto and their respective successors and permitted assigns as provided herein, and the Owners of the Outstanding Bonds, any benefit or other legal or equitable right, remedy or claim under this Agreement.

Section 10. Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

Section 11. Amendments. This Agreement (and the form and requirements of the Disclosure Information) may not be effectively amended or supplemented except in a writing executed by the parties hereto (and the consent of the Dissemination Agent to such an amendment shall not be unreasonably withheld or delayed) accompanied by an opinion of Bond Counsel, who may rely on certificates of the Academy and others and the opinion may be subject to customary qualifications, to the effect that: (i) such amendment or supplement (a) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the Academy or the type of business conducted by the Academy, or (b) is required by, or better complies with, the provisions of paragraph (b)(5) of the Rule; (ii) this Agreement as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of the Rule at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that the Rule as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; (iii) such amendment or supplement does not materially impair the interests of the Bondowners under the Rule; and (iv) such amendment or supplement does not conflict with any provision of this Agreement not amended or supplemented thereby. This Agreement may be amended or supplemented from time to time without notice to or the consent of the Owners of any Bonds (except as provided in Section 6 hereof).

If the Disclosure Information is amended pursuant to this Section 11, the Academy shall provide to the Dissemination Agent prior to the Dissemination Agent being requested to consent to such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

Section 12. Execution Counterparts. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 13. Governing Law; Construction. This Agreement shall be construed in accordance with the laws of the State without giving effect to the conflicts-of-law principles thereof. This Agreement is entered into to comply with the continuing disclosure provisions of the Rule and should be construed so as to satisfy the requirements of paragraph (b)(5) of the Rule.

Section 14. Term. Except as provided in Section 7(b) hereof, this Agreement shall remain in effect so long as any Bonds are Outstanding.

[Signature page follows]

*(Signatures to Continuing Disclosure Agreement)*

IN WITNESS WHEREOF, AMERICAN MONTESSORI ACADEMY and THE BANK OF NEW YORK TRUST COMPANY, N.A., as Dissemination Agent, have caused this CONTINUING DISCLOSURE AGREEMENT to be executed in their respective names, all as of the date first written above.

AMERICAN MONTESSORI ACADEMY

By \_\_\_\_\_  
Michael S. Hale  
Its: President

THE BANK OF NEW YORK TRUST  
COMPANY, N.A., as Dissemination Agent

By \_\_\_\_\_  
Allen L. Golson  
Its: Vice President

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## **APPENDIX H**

### **SUMMARY OF REQUIREMENTS FOR SCHOOLS NOT MAKING AYP UNDER THE NO CHILD LEFT BEHIND ACT**

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## **APPENDIX H**

### **SUMMARY OF REQUIREMENTS FOR SCHOOLS NOT MAKING AYP UNDER THE NO CHILD LEFT BEHIND ACT**

The requirements for Title I schools that do not make Adequate Yearly Progress in English language arts or mathematics depend on the number of years for which the school has not made AYP. The requirements are designed to give Title I schools an opportunity to improve their programs, with assistance from the school district and outside experts if the district determines that they are needed. If a Title I school continues not to make AYP, the district is required to take specific actions to improve student academic achievement in the school.

At the same time as the improvement efforts are undertaken, students attending schools that do not make AYP in English language arts or mathematics are given other educational options. These options vary depending on the number of years the school has failed to make AYP.

The specific requirements for Title I schools that do not make AYP in English language arts or mathematics are as follows:

#### **Schools Not Making AYP for One Year**

Because a school's MEAP results can change from year to year for many reasons, a school that does not make AYP for one year is given a second year to demonstrate that it can make AYP.

There are no actions that the school or school district must take because a school has not made AYP for one year.

#### **Schools Not Making AYP for Two Years**

A Title I school that does not make AYP for two consecutive years is identified for improvement and must take the following steps to improve student academic achievement:

- Develop a two-year school improvement plan in consultation with parents, school district staff, and any outside expert who is providing assistance.
- Submit the plan to the district for peer review and district approval.
- Implement the improvement plan by the beginning of the school year following the year the school was identified.
- Spend at least 10 percent of its Title I allocation each year for the next two years on professional development that directly addresses the achievement problems that caused it to be identified.

When a Title I school is identified for improvement, the school district must also do the following:

- Offer students who are enrolled in the school the option to transfer to other schools in the district that are not identified for improvement, on a space-available basis.
- Provide or pay for transportation for students who choose the transfer option, within certain cost limits.
- Give priority to the lowest-achieving students from low-income families if there is not enough space available in non-identified schools or funds to cover transportation costs.

\*Districts with Title I schools identified for improvement must spend an amount equal to 20 percent of their Title I allocations for transportation and supplemental educational services, unless a smaller amount is needed. This includes 5 percent for transportation, 5 percent for supplemental educational services, and the remaining 10 percent for transportation, supplemental educational services, or both. Districts are not required to spend additional funds to meet the transportation requirement.

### **Schools Not Making AYP for Three Years**

A Title I school that does not make AYP for three consecutive years continues to be identified for improvement. The school must continue to implement its revised school improvement plan and spend at least 10 percent of its Title I allocation on professional development to address the academic problems that caused it to be identified. The school district must continue to offer the transfer option and provide or pay for transportation. In addition, the school district must:

- Offer low-income students attending the school the opportunity to receive supplemental educational services outside of the school day.
- Give parents of eligible students the option of choosing among the state-approved providers in the area, on a space-available basis.
- Pay the costs of the supplemental educational services, within certain cost limits. \*\*
- Give priority to the lowest-achieving students if there are not enough funds to cover the costs of supplemental services for all eligible students.

\*\*The maximum cost per student is the amount of Title I funds the district receives per low-income student or the actual cost of the supplemental services, whichever is less. The district maximum cost is an amount equal to 5 percent of its Title I allocation, with another 10 percent available for transportation, supplemental educational services, or both.

### **Schools Not Making AYP for Four Years**

A Title I school that does not make AYP for four consecutive years is identified for corrective action. The school district must continue to offer the transfer option and supplemental educational services. The district must also take at least one of the following actions to improve student academic achievement in the school:

- Replace the school staff who are relevant to the failure to make AYP.
- Implement a new research-based curriculum and provide appropriate professional development for all relevant staff.
- Significantly decrease management authority at the school.
- Appoint an outside expert to advise the school on revising its school improvement plan to address the issues underlying its continued achievement problems.
- Extend the school year or the school day.
- Restructure the internal organization of the school.

The school district is responsible for selecting the action or actions that are most likely to address the school's academic problems that caused it to continue to be identified. The district must notify parents and the public regarding the corrective action(s) it chooses to take.

### **Schools Not Making AYP for Five Years**

A Title I school that does not make AYP for five consecutive years is identified for restructuring. The school district must continue to offer the transfer option and supplemental educational services. The district must also take at least one of the following actions to make fundamental changes in how the school is operated in order to improve student academic achievement:

- Reopen the school as a charter school.
- Replace all or most of the school staff who are relevant to the failure to make AYP.
- Enter into a contract to have an outside organization with a record of effectiveness to operate the school.
- Turn the operation of the school over to the state, if the state agrees.
- Restructure the school's governance arrangement in another way that makes fundamental reforms.

Before taking any action, the school district must notify parents and teachers that the school has been identified for restructuring and give them an opportunity to participate in the development of the restructuring plan.

#### **Status of Identified Schools That Subsequently Make AYP**

A Title I school that has been identified for improvement, corrective action or restructuring will have a change in status and the requirements that apply if it succeeds in making AYP. The specific provisions are as follows:

#### **Schools Making AYP for One Year After They Have Been Identified for School Improvement, Corrective Action or Restructuring**

If a Title I school makes AYP for one year after it has been identified for school improvement, corrective action or restructuring, the school district may delay taking any additional action for one year. The school district must allow students who had previously chosen the transfer option to continue to attend their new school and must provide or pay for transportation. One year of making AYP is not considered to be an interruption to the number of “consecutive” years a school has not made AYP or the school’s resulting status.

#### **Schools Making AYP for Two Consecutive Years After They Have Been Identified for School Improvement, Corrective Action or Restructuring**

If a Title I school makes AYP for two consecutive years after it has been identified for school improvement, corrective action or restructuring, it is no longer identified or subject to the requirements for identified schools. The district must allow students who had previously chosen the transfer option to continue to attend their new school until they complete the highest grade level in the school. However, the district is not required to provide or pay for transportation once the student’s original school is no longer identified for improvement.

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